Agenda Item #14.1
For Council Meeting of: October 2, 2018

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL

FROM: ADRIANE MERTENS, COMMUNICATIONS AND INTERGOVERNMENTAL RELATIONS OFFICER, CITY MANAGER'S OFFICE

SUBJECT: CITY COUNCIL CONSIDERATION TO TAKE FORMAL POSITION ON NOVEMBER 6, 2018 BALLOT MEASURES THAT COULD POTENTIALLY HAVE IMPACT TO SANTA ROSA

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the City Manager's Office that the Council, by resolution, consider taking a formal position on the November 6, 2018 California statewide and local ballot measures that could potentially have impact to the City of Santa Rosa.

EXECUTIVE SUMMARY

On Tuesday, November 6, 2018 a General Election will be held throughout California. The City of Santa Rosa has identified statewide and local 2018 ballot measures that may have potential impacts to Santa Rosa. The City Council may consider taking a formal position of support or opposition.

The statewide ballot measures to be considered are Proposition 1, Proposition 2, Proposition 3, Proposition 5, Proposition 6 and Proposition 10. The local ballot measure to be considered is Measure M.

BACKGROUND

On June 11, 2018, the Governor of the State of California, Edmund G. Brown Jr., filed a proclamation with the Secretary of the State of California proclaiming that a General Election would be held throughout California on Tuesday, the 6th day of November 2018. Several statewide and local measures on the ballot may have potential impacts to the City of Santa Rosa. City Council may consider taking a formal position on these measures.

PRIOR CITY COUNCIL REVIEW

N/A

ANALYSIS

The following ballot measures have been identified to have potential impact on Santa Rosa:

2018 California Ballot Propositions

Proposition 1: Authorizes Bonds to Fund Specified Housing Assistance Programs. Legislative Statute.

A **YES** vote on this measure means: Allows the state to sell $4 billion in general obligation bonds to fund veterans and affordable housing.

A **NO** vote on this measure means: The state could not sell $4 billion in general obligation bonds to fund veterans and affordable housing.

Proposal

This measure allows the state to sell $4 billion in new general obligation bonds for various state housing programs and home loan assistance to veterans.

The measure provides $3 billion for various state housing programs. Proceeds from the bond sale would be awarded to program applicants—local governments, nonprofit organizations, and private developers—through a competitive process administered by the state.

- Affordable Multifamily Housing Programs - $1.8 billion
- Infrastructure Programs - $450 million
- Homeownership Programs - $450 million
- Farmworker Housing Program - $300 million

This measure also provides $1 billion for home loan assistance to veterans. Veterans generally use these loans to purchase single-family residences, condominiums, farms, and mobile homes.

- Veterans Housing Program - $1 billion

Fiscal Effects

This measure would allow the state to borrow up to $4 billion by selling general obligation bonds to investors. The cost of these bonds would depend on various factors—such as the interest rates in effect at the time they are sold, the timing of the bond sales, and the time period over which they are repaid.

Three billion dollars – the funds allocated to various state housing programs -- would be repaid with interest from the state's General Fund. The California Legislative Analyst's Office estimates that the cost to taxpayers to repay the bonds would average about $170 million annually for 35 years—totaling $5.9 billion to pay off both the principal ($3 billion) and interest ($2.9 billion). This amount is about one-tenth of 1 percent of the state's current General Fund budget.

As to the remaining $1 billion, veterans participating in the home loan program would make monthly payments to the state, allowing the state to repay these bonds. These payments have always covered the amount owed on the bonds, meaning the program has always operated at no direct cost to the state.

Impact to Santa Rosa

This measure could provide needed affordable housing resources for Santa Rosa's most vulnerable populations. If the Santa Rosa Housing Recovery Bond (Measure N) is passed, monies could be used as a local match to compete for these statewide resources. Staff recommends a formal resolution of support be taken.

Proposition 2: Authorizes Bonds to Fund Existing Housing Program for Individuals with Mental Illness. Legislative Statute.

A **YES** vote on this measure means: The state could use existing county mental health funds to pay for housing for those with mental illness who are homeless.

A **NO** vote on this measure means: The state's ability to use existing county mental health funds to pay for housing for those with mental illness who are homeless would depend on future court decisions.

Proposal

The measure will confirm that the state may carry out the No Place Like Home program as currently designed. In particular, the measure:

- Approves the Use of Mental Health Services Act Funds for No Place Like Home. No more than $140 million of Mental Health Services Act funds could be used for No Place Like Home in any year.

- Authorizes $2 billion in borrowing. The measure allows the state to sell up to $2 billion in bonds to pay for the No Place Like Home program. The bonds would be repaid over many years with Mental Health Services Act funds.

The No Place Like Home was created by the Legislature in 2016 to build and rehabilitate housing for those with mental illness who are homeless or at risk of becoming homeless. The program is designed to use certain funding from the state's Mental Health Services Act, approved by the voters in 2004.

The No Place Like Home program, however, has been challenged in Court. Opponents allege that the program is inconsistent with the terms of the Mental Health Services Act, and have asked the Court to decide two main issues:

- Whether using Mental Health Services Act dollars to pay for the No Place Like Home program is consistent with what the voters wanted when they approved the Mental Health Services Act in 2004.
- Whether voters need to approve the No Place Like Home bonds. (The State Constitution requires voters to approve certain kinds of state borrowing.)

This Court decision is pending.

Approval of this measure would negate the need for a Court decision. By this measure, the voters themselves would affirm the No Place Like Home program and approve the issuance of No Place Like Home bonds. With passage of this measure, the state would no longer need court approval to carry out the program.

Fiscal Effects

Allows the state to use up to $140 million per year of county mental health funds to repay up to $2 billion in bonds. These bonds would fund housing for those with mental illness who are homeless or at risk of becoming homeless.

In 2016, the Legislature created the No Place Like Home program to build and rehabilitate housing for those with mental illness who are homeless or at risk of becoming homeless. The state plans to pay for this housing by borrowing up to $2 billion. The state would borrow this money by selling bonds, which would be repaid with interest over about 30 years using revenues from the Mental Health Services Act. This means less funding would be available for other county mental health services. No more than $140 million of Mental Health Services Act funds could be used for the No Place Like Home program in any year. The bond payments would be around $120 million in the typical year.

Impact to Santa Rosa

This measure would provide needed affordable housing resources for Santa Rosa's most vulnerable populations. If the Santa Rosa Housing Recovery Bond (Measure N) is passed, monies could be used as a local match to compete for these statewide resources. Staff recommends a formal resolution of support be taken.

***Proposition 3: Authorizes Bonds to Fund Projects for Water Supply and Quality, Watershed, Fish, Wildlife, Water Conveyance, and Groundwater Sustainability and Storage. Initiative Statute*.**

A **YES** vote on this measure means: The state could sell $8.9 billion in general obligation bonds to fund various water and environmental projects.

A **NO** vote on this measure means: The state could not sell $8.9 billion in general obligation bonds to fund various water and environmental projects.

Proposal

This proposition allows the state to sell approximately $8.9 billion in new General Obligation bonds for various water and environmental projects. These funds fall into six broad categories:

- Watershed Lands - $2.5 billion
- Water Supply - $2.1 billion
- Fish and Wildlife Habitat - $1.4 billion
- Water Facility Upgrades - $1.2 billion
- Groundwater - $1.1 billion
- Flood Protection - $500 million

The proposition provides funding to more than a dozen different state departments. The proposition continuously appropriates the bond funds to these departments, which is different from most water and environmental bonds. This means that the Legislature would not spend the funds in the annual state budget. Instead, departments would automatically receive funding when they are ready to spend it. Departments may spend some of the funds to carry out projects themselves. However, most of the funds would be given as grants to local government agencies, Indian tribes, nonprofit organizations, and private water companies for specific projects. For some funding subcategories—particularly those related to increasing or protecting water supply—grant recipients would have to provide at least $1 in local funds for each $1 of grant funding they receive.

The proposition has several provisions to help disadvantaged communities (those with lower average incomes). For a few spending subcategories, the proposition requires that funding be spent on projects that benefit these communities. Also, in many cases disadvantaged communities that receive grants would not have to pay the local share of costs discussed above.

Separate from the $8.9 billion bond, this proposition also changes how the state must spend some existing funding related to Green House Gases (GHG). The state has passed laws to reduce global warming by limiting the amount of GHGs that are released in California. These efforts include the “cap-and-trade” program, which requires some companies and government agencies to buy permits from the state to release GHGs. The program causes some water agencies to have higher electricity costs to operate parts of their water delivery systems, such as pumps and water treatment plants. This proposition requires that a portion of the funding the state receives from the sale of permits be provided to four water agencies—the state Department of Water Resources, the Metropolitan Water District of Southern California, the Contra Costa Water District, and the San Luis and Delta Mendota Water Authority. The amount of funding would be equal to each agency's additional electricity costs associated with state programs to reduce GHGs.

The California Legislative Analyst's Office estimates these costs could total tens of millions of dollars annually. The four identified water agencies would be required to spend the funds they receive on such activities as water conservation programs. As such, these funds would no longer be available for the state to spend on other activities.

Fiscal Effects

This proposition would allow the state to borrow $8.9 billion by selling additional GO bonds to investors. These investors would be repaid with interest using the state's General Fund tax revenues. The cost of these bonds would depend on various factors—such as the interest rates in effect at the time they are sold, the timing of bond sales, and the time period over which they are repaid. The Legislative Analyst estimates that the cost to state taxpayers to repay this bond would total $17.3 billion to pay off both principal ($8.9 billion) and interest ($8.4 billion). This would result in average costs of about $430 million annually over the next 40 years. This amount is about one-third of 1 percent of the state's current General Fund budget.

Impact to Santa Rosa

The water industry in general has been supportive of the Water Bond. There are opportunities for grant funding for the City of Santa Rosa for Water-Use Efficiency (WUE), groundwater, recycled water, etc. Additionally, there are options for the Sonoma County Water Agency to get funding for projects as well. Prop 1 funding, which Santa Rosa Water supported, is ending and having new grant opportunities would be helpful. ACWA, WaterReuse, CalWEP, the Santa Rosa Plain Groundwater Sustainability Agency (GSA), as well as a number of local water agencies including Sonoma County Water Agency support Proposition 3. Staff recommend support of Proposition 3.

Proposition 5: Changes Requirements for Certain Property Owners to Transfer Their Property Tax Base to Replacement Property. Initiative Constitutional Amendment and Statute.

A **YES** vote on this measure means: Expand opportunities for homeowners who are over 55 or severely disabled to transfer their property tax base (and realize resulting property tax savings) when they move to a different home.

A **NO** vote on this measure means: Maintain current state rules on homeowners' ability to transfer their property tax base when they move to a different home.

Proposal

The measure amends the State Constitution to expand the special rules that allow certain eligible homeowners to transfer their property tax base (and enjoy resulting property tax savings) when they buy a different home. Beginning January 1, 2019, the measure:

- Allows moves anywhere in the state. Eligible homeowners could transfer the taxable value of their existing home to another home anywhere in the state.
- Allows the purchase of a more expensive home. Eligible homeowners could transfer the taxable value of their existing home (with some adjustment) to a more expensive home. The taxable value transferred from the existing home to the new home is adjusted upward. The new home's taxable value is greater than the prior home's taxable value but less than the new home's market value.
- Reduces taxes for newly-purchased homes that are less expensive. When an eligible homeowner moves to a less expensive home, the taxable value transferred from the existing home to the new home is adjusted downward.
- Removes limits on how many times a homeowner can use the special rules. There is no limit on the number of times an eligible homeowner can transfer their taxable value.

Fiscal Effects

The measure could have multiple effects on property tax revenue:

Right now, about 85,000 homeowners who are over 55 move to different houses each year without receiving a property tax break. Most of these movers end up paying higher property taxes. Under the measure, their property taxes would be much lower. This would reduce property tax revenue.

The measure may cause more eligible homeowners to sell their homes and buy different homes because it provides a measure of property tax relief. The Legislative Analyst estimates that the number of movers could increase by a few tens of thousands. More people interested in buying and selling homes could have some effect on home prices and home building. Increases in home prices and home building would lead to increased property tax revenue. The Legislative Analyst has concluded that the revenue losses from people who would have moved anyway would be greater than the tax revenue gains from higher home prices and home building. This means the measure could reduce property taxes for local governments. The Legislative Analyst anticipates that in the first few years, schools and other local governments could each potentially lose over $100 million per year. Current law requires the state to provide more funding to most schools to cover their property tax losses. Over time, these losses would grow, resulting in schools and other local governments each losing about $1 billion per year.

As the measure is likely to increase home sales, it also would increase property transfer taxes collected by cities and counties. The Legislative Analyst concludes that this revenue increase likely would be in the tens of millions of dollars per year. Because the measure would increase the number of homes sold each year, it likely would increase the number of taxpayers required to pay income taxes on the profits from the sale of their homes. The Legislative Analyst reports that this could potentially increase state income tax revenues by tens of millions of dollars per year.

County assessors would need to create a process to calculate the taxable value of homes covered by this measure. This would result in one-time costs for county assessors in the tens of millions of dollars or more, with somewhat smaller ongoing cost increases.

Impact to Santa Rosa

Proposition 5 could impact Santa Rosa, but the fiscal impact or dollar amount is very hard to quantify. Staff does not recommend taking action on this measure.

Proposition 6: Eliminates Certain Road Repair and Transportation Funding. Requires Certain Fuel Taxes and Vehicle Fees be Approved by the Electorate. Initiative Constitutional Amendment.

A **YES** vote on this measure means: Fuel and vehicle taxes recently passed by the Legislature would be eliminated, which would reduce funding for highway and road maintenance and repairs, as well as transit programs. The Legislature would be required to submit to the voters any new or increased state fuel and vehicle taxes in the future. Such taxes would go into effect only if approved by a majority of the electorate.

A **NO** vote on this measure means: Fuel and vehicle taxes recently passed by the Legislature would continue to be in effect and pay for highway and road maintenance and repairs, as well as transit programs. The Legislature would continue not to need voter approval for new or increased state fuel and vehicle taxes in the future.

Proposal

Proposition 6 amends the State Constitution to require the Legislature to get voter approval for new or increased taxes on the sale, storage, use, or consumption of gasoline or diesel fuel, as well as for taxes paid for the privilege of operating a vehicle on public highways. Thus, the Legislature would need voter approval for such taxes as gasoline and diesel excise and sales taxes, vehicle license fees, and transportation improvement fees. Proposition 6 also eliminates any such fuel and vehicle taxes passed by the Legislature after January 1, 2017 and up to the date that Proposition 6 takes effect in December. This would eliminate the increased fuel taxes and the transportation improvement fees enacted by SB 1.

Fiscal Effects

In the current fiscal year, Proposition 6 would reduce SB 1 tax revenues from $4.4 billion to $2 billion—a $2.4 billion decrease. (The $2 billion in remaining revenues would be from taxes collected prior to Proposition 6 taking effect in December). Two years from now, the revenue reduction would total $5.1 billion annually. The funding reductions would mainly affect highway and road maintenance and repair programs, as well as transit programs.

Proposition 6 would make it more difficult to enact specified fuel and vehicle taxes because voters also would have to approve them. As a result, there could be less revenue than otherwise would be the case. Any reduction in revenues is unknown, as it would depend on future actions by the Legislature and voters.

Impact to Santa Rosa

Road Repair and Maintenance:

SB 1 Road Repair and Accountability Act provides much needed transportation funding to repair and maintain City streets which have been backlogged due to years of insufficient funding. With an estimated $3.9 million annually from SB1 funding, Santa Rosa will be able to rehabilitate failing pavement and enhance bicycle and pedestrian travel for Santa Rosa residents. Even with this new funding, the City is still left with a shortfall of approximately $10 million annually.

The City of Santa Rosa has a $1.1 billion dollar / 507-mile street system, with streets varying from two-lane (residential) streets to six-lane (arterial) streets. With an average annual maintenance budget of approximately $5.4 million dollars, Santa Rosa's roadway Pavement Condition Index (PCI) has steadily declined to 60, at the line between "good" and "fair" condition, with the Bay Area average PCI being 66 or "good". Recent evaluation with our pavement management program has concluded that at least $18 million per year is needed just to maintain the existing pavement conditions at 60. SB1 also includes accountability provisions and constitutional protections, such as the creation of the Office of Inspector General, to ensure the funding is spent wisely and on transportation projects only. A yes vote on Proposition 6 would repeal the critical SB1 funding required for the City's road repair and maintenance.

Transit:

Under SB1, City of Santa Rosa Transit is projected to receive $900,000 annually in combined funding for operations and capital improvements. These funds are crucial to maintaining service levels and supporting the City's bus replacement program, expanding the number of electric buses in the fleet, and will help to fill funding gaps that have resulted from reductions in other state funding for transit services. A yes vote on Proposition 6 would repeal the critical SB1 funding required to maintain transit service levels.

Each day, thousands of Santa Rosa residents ride CityBus to get to work, school, parks, stores, libraries, medical appointments, etc. CityBus currently offers 15 fixed routes and 11 vehicles for ADA Paratransit services within the city limits, helping to serve Santa Rosa's neighborhoods, the downtown business and shopping districts, schools, Santa Rosa Junior College, various shopping centers throughout town, libraries, parks and government centers. Buses help reduce the number of cars on the road and in turn benefit our climate through reduced greenhouse gas emissions.

On September 10, 2018, the Sonoma County Transportation Authority (SCTA) Board voted to oppose Proposition 6. Staff recommends opposing Proposition 6.

Proposition 10: Expands Local Governments' Authority to Enact Rent Control on Residential Property. Initiative Statute.

A **YES** vote on this measure means: State law would no longer limit the kinds of rent control laws cities and counties can have.

A **NO** vote on this measure means: State law would continue to limit the kinds of rent control laws cities and counties can have.

Proposal

The measure repeals the limits on local rent control laws set forth in the Costa Hawkins Rental Housing Act (Costa Hawkins). Most significantly, Costa Hawkins creates three key limitations: (1) rent control cannot apply to any single family homes; (2) rent control cannot apply to any housing completed on or after February 1, 1995, and (3) rent control laws cannot place limits on what a landlord may charge a new tenant when first moving in.

This measure repeals those and other limits on rent control under Costa Hawkins. Under the measure, cities and counties can regulate rents for *any* housing. They also can limit how much a landlord can charge when a new renter moves in. The measure itself does not make any changes to local rent control laws. With a few exceptions, cities and counties would have to take separate actions to change their local laws. The measure requires that rent control laws allow landlords a fair rate of return. This puts the results of past court rulings into state law.

Fiscal Effects

If communities respond to this measure by expanding their rent control laws, it could lead to several economic effects. The most likely effects are:

- To avoid rent regulation, some landlords would sell their rental housing or convert rental housing to ownership units.

- The value of rental housing would decline because potential landlords would not want to pay as much for these properties.
- Some renters would spend less on rent and some landlords would receive less rental income.
- Some renters would move less often.

These effects would depend on how many communities pass new laws, how many properties are covered, and how much rents are limited. Voters in some communities have proposed expanding rent control if this measure passes. If many localities enacted strong rent regulation, other economic effects (such as impacts on housing construction) could occur.

Overall, the measure likely would reduce state and local revenues in the long term, with the largest effect on property taxes. The amount of revenue loss would depend on many factors, most importantly how communities respond to this measure. The Legislative Analyst estimates that if several communities expand moderate rent control to cover most of their rental housing, revenue losses could be in the tens of millions of dollars per year. If few communities make changes, revenue losses would be minor. If many communities pass strong rent control, revenue losses could be in the hundreds of millions of dollars per year.

Impact to Santa Rosa

Staff recommends no action be taken on this measure.

Measure M: Sonoma County Parks Measure.

Measure M proposes a ten-year 1/8-cent sales tax dedicated to parks within Sonoma County, including city operated parks. The measure is anticipated to generate $11.5 million per year for its 10 year duration. At 0.125%, it would add three cents to the cost of a $25 purchase. If passed, two-thirds of the funds raised would go to County parks and one-third would go to cities for park improvements. Funds raised through this measure may be used to expand and enhance parks throughout Sonoma County.

Impact to Santa Rosa

The County Parks Measure proposes a one-eighth cent sales tax to provide $11.5 million annually County-wide for 10 years. Santa Rosa is estimated to receive nearly $2 million annually as the largest city in the county.

The Measure must pass with two-thirds voter approval and funds may only be utilized for parks, and not reduce existing funding for parks and recreation. The funds could benefit the City of Santa Rosa by providing additional support for projects at city-wide, neighborhood and community parks, recreational program support, and fire fuel reduction projects.

However, it is unclear if the City would meet the Maintenance of Effort (MOE) requirements to qualify for the entire annual tax allotment. Staff analysis of the measure shows that the City may be eligible to receive very little of the funding from the measure due to the City's structural deficit and projected staffing levels. City staff are working with the County to clarify the language of the measure and determine what funding may be available to the City. Staff recommends supporting Measure M.

FISCAL IMPACT

Unknown. The fiscal impacts to Santa Rosa could vary tremendously depending on the outcome of other measures on the November 6, 2018 ballot. See Analysis section for possible fiscal effect of each State Proposition.

ENVIRONMENTAL IMPACT

This review of ballot measures 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

N/A

NOTIFICATION

N/A

ATTACHMENTS

N/A

CONTACT

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