



Information Item

Date: May 29, 2014

To: Mayor and City Council
From: Andy Agle, Director of Housing and Economic Development
Subject: Update on Potential Local Funding Source for Affordable Housing

Introduction

This report provides an update on efforts to develop a new, local funding source for affordable housing, including the results of a recent telephone poll of registered Santa Monica voters regarding potential ballot measures to support funding for affordable housing.

Background

Council held policy discussions on [February 28, 2012](#) and [December 11, 2012](#) to consider a variety of issues related to affordable housing in Santa Monica. The policy discussions were held in the wake of the dissolution of all redevelopment agencies in California, including the Santa Monica Redevelopment Agency (RDA.) The RDA provided the primary local funding source for the production and preservation of affordable housing in Santa Monica. During the years leading up to redevelopment dissolution, the Housing Division invested over \$15 million per year of redevelopment funds to finance affordable housing through loans and grants to non-profit housing organizations. The investment of local funds leveraged an additional \$15 to \$20 million annually from private investors and institutional lenders. With the dissolution of redevelopment, the flow of funds that can be invested in affordable housing, as well as the City's ability to leverage outside funding, has been radically diminished.

Current budget projections show less than \$1 million per year available for affordable housing production and preservation in the coming years. With such limited funding, it will take the City several years to accrue sufficient funds to support one affordable housing preservation or production opportunity.

With state-mandated vacancy decontrol significantly impacting the affordability of Santa Monica's rent-controlled apartment supply, financing the production and preservation of affordable housing has been a critical tool in ensuring the continued availability of housing that is affordable to households of all income levels and in maintaining economic diversity in Santa Monica. Funding from the RDA played the central role in the City's ability to finance the production and preservation of affordable housing, and has been the cornerstone of Santa Monica's robust affordable housing program. Since 1994, approximately 38 percent of all new housing built in Santa Monica has been affordable to low- and moderate-income households, totaling nearly 1,600 residences that will serve many generations of families and individuals of modest incomes. This is an outstanding accomplishment that few cities have achieved.

The final wave of redevelopment-funded affordable housing developments has recently been completed or is under construction. During 2014, over 250 new affordable apartments have become available to low-income families, seniors, and artists. Another 32 affordable apartments are expected to be completed in early 2015. Staff anticipates that one or two additional housing rehabilitation opportunities will be funded from recent land sales. Once those opportunities are funded and completed, the non-profit affordable housing pipeline in Santa Monica is expected to run dry. Finding new funding sources will be critical to continuing Santa Monica's commitment to a diverse community with housing for people of all incomes.

As discussed in the City Council staff report of [February 25, 2014](#), prospects for significant, new funding sources at the federal, state, or regional levels are dim. If new funding sources are developed at higher levels of government, they will likely require the availability of local matching funds, particularly in locations such as Santa Monica

where land and construction costs are high. If the City desires to maintain its traditionally broad and deep affordable housing program, staff believes that the creation of a new local funding source will be necessary. In the coming months, Council will consider an ordinance to implement a commercial / housing linkage fee. While a commercial / housing linkage fee would play an important role in mitigating the impacts of commercial development on affordable housing needs, staff does not expect it to be a significant, on-going source of funding to invest in affordable housing. One of the primary reasons is that there is not expected to be significant commercial development in Santa Monica in the coming years. Within the current development pipeline, most of the proposed projects are primarily residential. Most of the significant commercial developments (hotels, mixed-use creative office / residential developments) are anticipated to include affordable housing on site. Commercial components of any new developments will also likely be offset by fee credit for existing, on-site commercial structures, thus reducing fee revenues. While only a portion of the projects may ultimately make it into construction, it does provide a reasonable proxy for the type of development that will be expected. As a result, if approved, the new fee will likely be an important, though relatively insignificant, source of funding for affordable housing, requiring funds to be accumulated over multiple years to be sufficient to create or preserve new affordable housing. Maintaining the City's robust affordable housing program will require additional local funds.

Discussion

At its [February 25, 2014](#) meeting, Council discussed an adjustment to the documentary transfer tax rate in order to increase City revenues that could be used to support affordable housing. The documentary transfer tax is collected by a county recorder whenever property changes hands and an ownership transfer document is recorded. All California counties collect a documentary transfer tax of \$1.10 per \$1,000 of transferred value. In addition, many California cities charge an additional transfer amount that is collected by the county recorder and paid to the respective city. Santa Monica collects an additional amount of \$3 per \$1,000 of transferred value that goes to support general City programs. Currently, the range of city transfer rates in

California is \$1.10 to \$25.00 per \$1,000 of transferred value. (See Attachment A for a list of California cities' transfer rates.)

For example, if a property in Santa Monica sold for \$1,000,000, the Los Angeles County Recorder would collect a transfer tax of \$4,100 $((1,000,000/1000)*(1.10+3.00))$, with \$1,100 for the county and \$3,000 for the City. Payment of the transfer amount can be negotiated between the buyer and the seller.

The idea of increasing real estate transfer rates and later directing the increased receipts toward affordable housing is appealing for a variety of reasons. First, transfer receipts can vary widely from year to year, based on transactions that occur during any year. Such receipts tend to be affected by the general volume of residential and commercial sales and the exact timing of significant sales. For example, a handful of significant commercial property sales in one year, combined with brisk residential sales activity, could spike transfer receipts, while minimal commercial and residential sales in a subsequent year could drop municipal receipts. (See Attachment B for historical transfer fee receipts in Santa Monica.) The volatility of transfer receipts would make it difficult to fund an operating program that has relatively fixed costs each year. By comparison, affordable housing opportunities are funded once sufficient funds have been collected to support the opportunity. As a result, the volatility of the funding source would not be a significant detriment to the City's funding system for affordable housing.

Increasing the transfer rate and later allocating funds toward affordable housing also has appeal from a policy perspective. The existing Affordable Housing Production Program (AHPP) ensures that new market-rate residential development mitigates the need for affordable housing, and the proposed affordable housing commercial linkage fee will help mitigate the need for affordable housing that new commercial development generates. However, there is no means for existing commercial and residential properties, particularly those that were developed before current affordable housing policies were in place, to help address the need for affordable housing in Santa Monica.

Increasing the transfer fee on property transfers and later allocating it toward affordable housing could allow a small portion of the escalation in values of existing residential and commercial properties to be dedicated to promoting economic diversity and to helping address the housing needs of low-income members of the Santa Monica community.

Increasing the real estate transfer rate would require voter approval. There are several reasons that voters could embrace an adjustment to the transfer rate. First, residents encounter the transfer tax only when they are buying or selling property, which is a rare occasion for most residents. Second, residential sales prices in Santa Monica have peaked at a level that is commensurate with their pre-recession levels. (See Attachment C for median residential sales prices since 2000.) As a result, most residential sales are expected to involve value appreciation that far surpasses any likely amount of the transfer rate. Sales by longer-term owners can see doubling, tripling, and quadrupling of values since purchase. Local brokers and appraisers estimate that commercial property values have similarly recovered from the recession. Second, the payment of the transfer tax can be negotiated between buyers and sellers and the payment is accompanied by a variety of other escrow and closing costs that many buyers and sellers consider to be part of the cost of the transaction. Finally, with a minimum transaction threshold for application of the higher rate, such as applying the increased rate to sales over one million dollars, homeowners of more modest means would be shielded from the increased rate when they sell their homes. A threshold would also ensure that virtually all commercial transactions would pay the higher rate, ensuring that existing commercial properties contribute to the community's needs when a sale occurs.

Adjusting the local transfer tax for general municipal purposes would require approval by over 50 percent of voters. A tax adjustment for general purposes could be paired with a companion measure demonstrating voters' desire that the increased revenue be directed toward affordable housing. On [February 25, 2014](#), Council authorized staff to engage Fairbank, Maslin, Maullin, Metz & Associates (FM3) to conduct a telephone

survey of Santa Monica voters in order to better understand voter attitudes toward the documentary transfer tax and affordable housing in general.

FM3 conducted a telephone survey of 501 Santa Monica voters, with a margin of error of plus or minus 4.4 percent. Attachment D provides a summary of the survey results. The survey found that 56 percent of voters think there is a great need or some need for additional funding to provide affordable housing in Santa Monica. A majority of survey respondents expressed some level of support for increasing the documentary transfer tax from \$3 to \$9 per thousand dollars of sales value for properties sold over one million dollars, as well as for an advisory measure supporting use of the increased funds for affordable housing. Of those surveyed, 57 percent said they would definitely vote yes, probably vote yes, or would lean toward voting yes on the documentary transfer rate adjustment. Fifty-nine percent expressed similar levels of support for an advisory measure related to affordable housing funding. After hearing educational statements about the documentary transfer tax and the City's affordable housing program, support for the transfer rate adjustment increased to 61 percent and support for the advisory measure increased to 67 percent. After hearing critical statements about the measures, 59 percent of survey respondents still supported the documentary transfer tax measure. Survey respondents indicated the strongest support for the measures if the funds were used only for affordable housing, including acquisition and rehabilitation of existing apartment buildings, with the strongest support for housing for seniors, veterans, persons living with disabilities, and people who live or work in Santa Monica.

While the polling shows general support for the measures, it also indicates that the majority support is not definitive and that education plays a critical role in support for the measure. As a result, if the measures are placed on the ballot, education and outreach by affordable housing supporters will be critical to ensuring that voters understand the measures and go to poll to vote for them. In considering whether to place the measures on the ballot, Council will need to assess the community resources that could commit to

supporting a ballot measure campaign, particularly because the City is not allowed to use its resources to advocate for ballot measures.

Next Steps

Staff plans to return to Council on July 8, 2014 for consideration of whether to place a ballot measure or measures on the November 2014 ballot.

Prepared By: Andy Agle, Director of Housing and Economic Development

Attachments:

- A. Comparison of Existing Real Estate Transfer Fees
- B. Historical Documentary Transfer Receipts: 1991 - 2012
- C. Median Residential Sales Prices: 2000 – 2013
- D. April 2014 Affordable Housing Voter Survey

Attachment A

**COMPARISON OF EXISTING REAL ESTATE TRANSFER FEES
NOVEMBER 2013**

<u>CITY</u>	<u>FEE PER \$1000 OF SALE VALUE</u>
ALAMEDA	\$12.00
ALBANY	\$11.50
BERKELEY	\$15.00
COTATI	\$1.90
CULVER CITY	\$4.50
HAYWARD	\$4.50
LOS ANGELES	\$4.50
MOUNTAIN VIEW	\$3.30
OAKLAND	\$15.00
PALO ALTO	\$3.30
PETALUMA	\$2.00
PIEDMONT	\$13.00
POMONA	\$2.20
REDONDO BEACH	\$2.20
RICHMOND	\$7.00
RIVERSIDE	\$1.10
SACRAMENTO	\$2.75
SAN FRANCISCO	*
SAN JOSE	\$3.30
SAN LEANDRO	\$6.00
SAN MATEO	\$5.00
SAN RAFAEL	\$2.00
SANTA ROSA	\$2.00
SANTA MONICA	\$3.00
VALLEJO	\$3.30
WOODLAND	\$1.10

* SAN FRANCISCO HAS A GRADUATED TAX, AS FOLLOWS

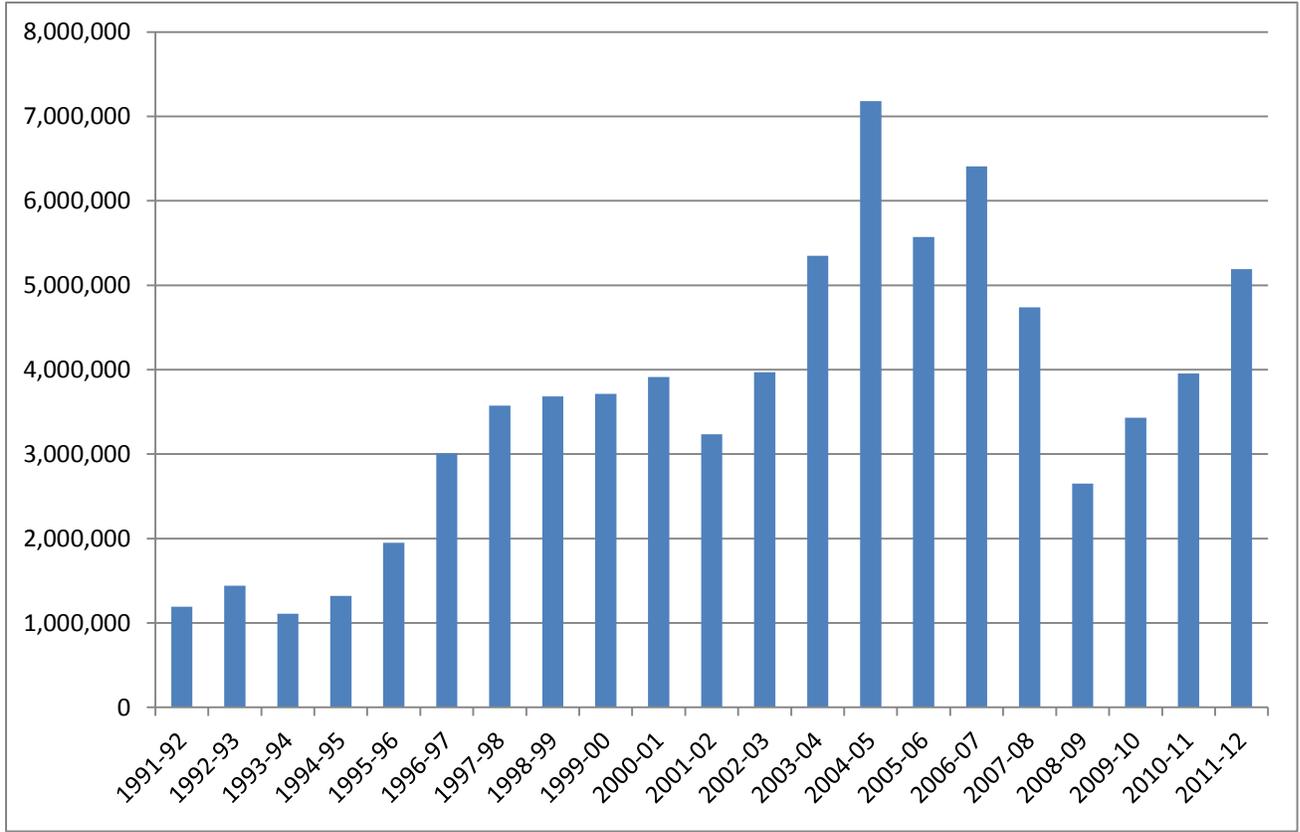
<u>SALE VALUE</u>	<u>FEE PER \$1000 OF SALE VALUE</u>
>\$100,000	\$5.00
>\$250,000	\$6.80
>\$1,000,000	\$7.50
>\$5,000,000	\$20.00
>\$10,000,000	\$25.00

SOURCE: CaliforniaCityFinance.com

Attachment B

SANTA MONICA REAL ESTATE TRANSFER FEE RECEIPTS

1991 to 2012



Attachment C

MEDIAN RESIDENTIAL SALES PRICES
SANTA MONICA
2000 - 2013



SOURCE: TRULIA

*Fairbank,
Maslin,
Maullin,
Metz &
Associates*

FM3

*Public Opinion Research
& Strategy*

TO: Interested Parties

FROM: Fairbank, Maslin, Maullin, Metz & Associates (FM3)

RE: Summary of City of Santa Monica Issues 2014 Survey

DATE: May 16, 2014

Between April 12th – 19th, 2014, Fairbank, Maslin, Maullin, Metz & Associates (FM3) conducted a telephone survey of 501 City of Santa Monica voters who are likely to vote in the November 2014 General Election.¹ The margin of error for the full sample is plus or minus 4.4 percent; margins of error for subgroups will be higher.²

The three main goals of this survey are to:

- (1) Examine general perceptions of the City**
- (2) Explore perceptions on the need for additional funds to provide affordable housing in the City**
- (3) Gauge the level of support for measures that would help address the need for additional affordable housing in Santa Monica**

The key survey findings include:

- A majority of voters consider the City to be headed in the right direction**
- About half of all voters perceive the City has a need for additional funds, both generally speaking and specifically to provide affordable housing**
- A majority of voters support a ballot measures to create new revenue for the City by increasing the existing documentary transfer tax**
- A majority of voters support an advisory ballot measure encouraging the City Council to use that revenue to provide affordable housing in Santa Monica**

The balance of this memo provides a detailed summary of the findings.

¹ Respondents were given a choice to conduct the survey in English or Spanish.

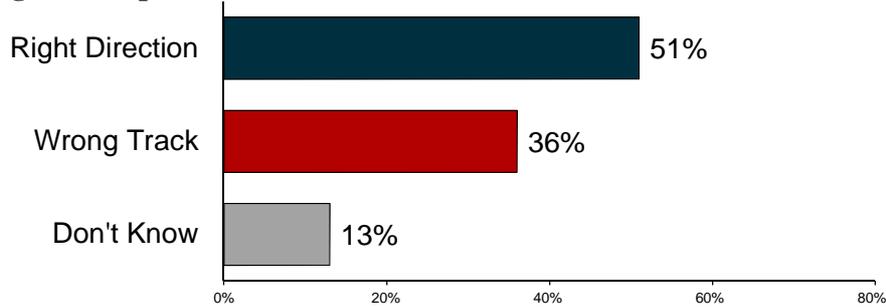
² Some results do not equal 100% due to rounding.

(1) General Perceptions of the City:

A majority of voters have positive views of where the City is headed

As seen in **Figure 1** below, 51 percent of voters feel that the City of Santa Monica is headed in the right direction and about one-third (36 percent) perceive that the City is pretty seriously off on the wrong track. Thirteen percent are undecided.

Figure 1: Opinion of Santa Monica Voters on the Direction of the City



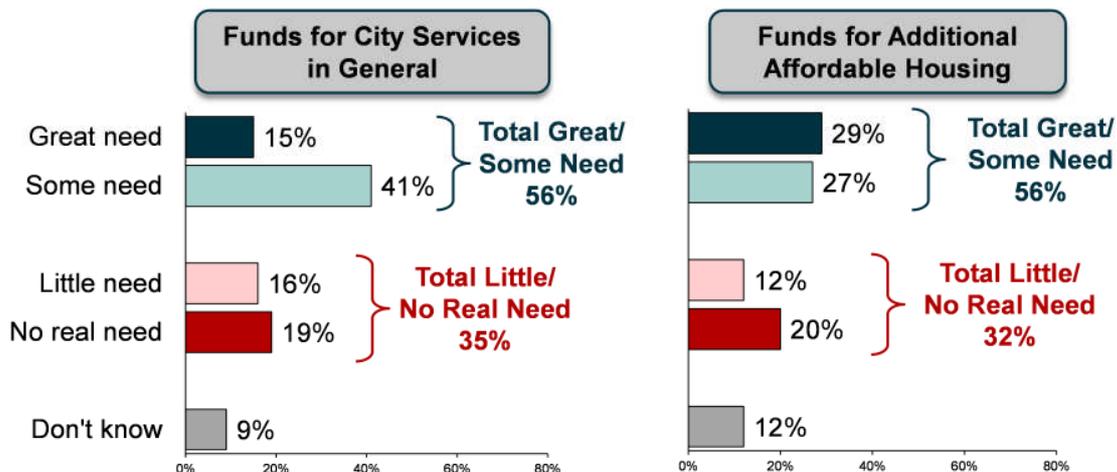
(2) Perceptions of the Need for Additional Funding for Affordable Housing:

More than one half of all voters perceive that the City generally needs additional funds

Fifty-six percent of respondents said that the City of Santa Monica has a great (15 percent) or some (41 percent) need for additional funds to provide the level of city services that residents need or want (see **Figure 2** below). Thirty-five percent identified little or no need for additional funding. The balance of voters (nine percent) are undecided.

Fifty-six percent of respondents said that the City has a need for funds to provide additional affordable housing. This is equal to the percentage who said the City had a general need for funds, but twice as many (29 percent) identified the need for funds for affordable housing as a “great need.” Thirty-two percent identified little or no need for additional funding to provide affordable housing, while twelve percent are undecided.

Figure 2: Perception of the City’s Need for Additional Funds



(3) Support for Documentary Transfer Tax/Affordable Housing Companion Measures:

Initial/Current level of support

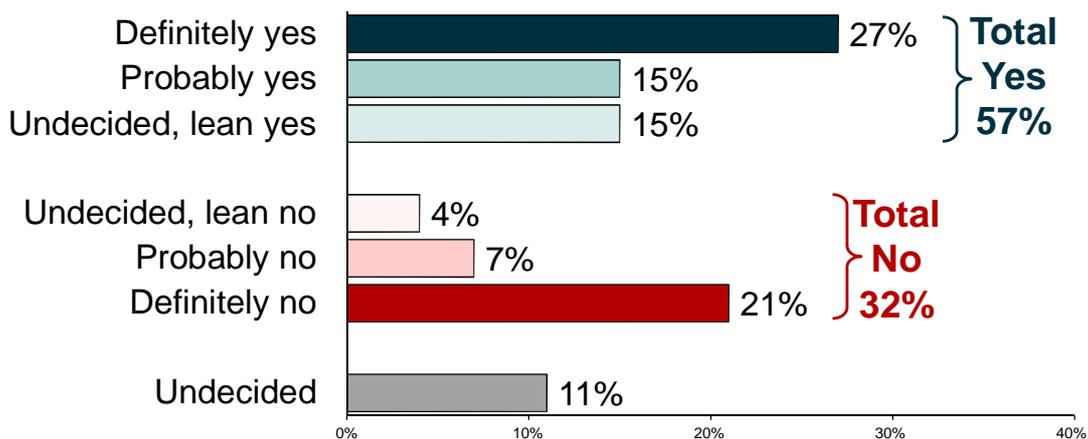
A majority of voters (57 percent) initially support a general purpose, simple majority measure to increase the existing documentary transfer tax by six dollars per one thousand dollars of sales on commercial and non-commercial property sold for over one million dollars.

Respondents were initially read the following possible ballot language:

“Shall the existing documentary transfer tax on commercial and non-commercial property sold for over one million dollars in the City of Santa Monica be increased by six dollars per one thousand dollars of sales?”

City of Santa Monica voters indicated that if the election was held “today,” a majority (57 percent) would support the measure.³ Initially, 32 percent of voters do not support the measure.⁴ A further eleven percent are undecided (see Figure 3).

Figure 3: Vote on the Documentary Transfer Tax Increase Measure



Voters were also asked about a companion measure that would advise the Santa Monica City Council to use funds from the documentary transfer tax increase to provide affordable housing in the City. A majority of voters (59 percent) initially support the advisory measure.

Respondents were initially read the following possible ballot language:

“ADVISORY VOTE: To provide affordable housing for low-income people who live or work in Santa Monica, including working families, seniors on fixed incomes, veterans, the homeless, and people with disabilities, shall the City of Santa Monica provide loans to qualified non-profit housing organizations to repair, renovate, build and acquire affordable

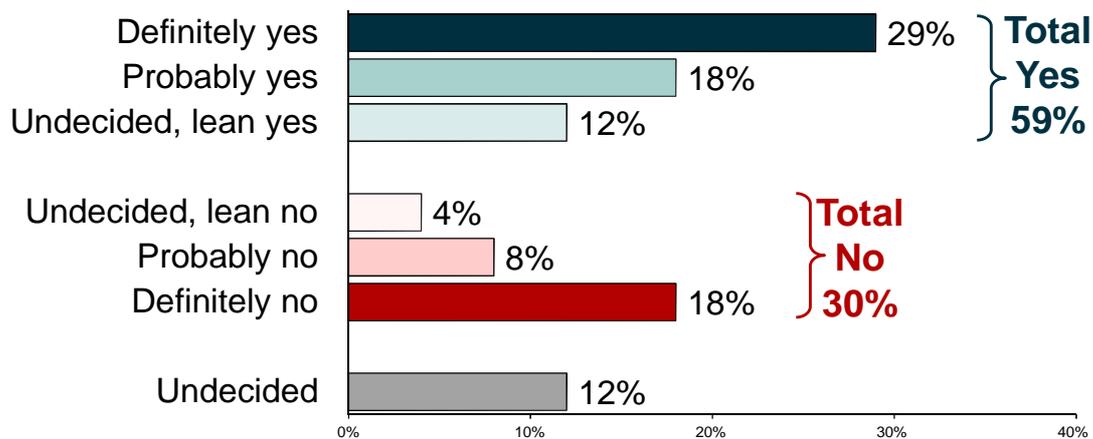
³ Definitely vote yes: 27 percent; probably vote yes: 15 percent; lean toward voting yes: 15 percent.

⁴ Definitely vote no: 21 percent; probably vote no: seven percent; lean toward voting no: four percent.

housing if voters approve increasing the existing documentary transfer tax by six dollars per one thousand dollars of commercial and non-commercial property sales of over one million dollars in the City of Santa Monica?”

City of Santa Monica voters indicated that if the election was held “today,” a majority (59 percent) would support the simple majority measure.⁵ Initially, 30 percent of voters do not support the measure.⁶ A further twelve percent are undecided (see Figure 4).

Figure 4: Vote on Advisory Measure to Use Documentary Transfer Tax Measure Funds to Provide Affordable Housing



Reaction to information about the package of ballot measures

Respondents also heard the following statement about the current documentary transfer tax and the proposed changes to the tax brought about by passing the measure:

“I would now like to tell you a little bit about the documentary transfer tax. It is an existing, one-time fee that the city imposes when residential and commercial real estate is sold. Currently in Santa Monica, the fee is set at three dollars per every one thousand dollars regardless of the price of the real estate that is sold. The ballot measure we have been discussing would increase that rate to nine dollars per every one thousand dollars in sales price only for property sold for over one million dollars in Santa Monica. It will not change the rate for property sold for less than one million dollars.”

Fifty-two percent of respondents said that the information made them more likely to support the measures, while twenty-one percent reported that it made them less likely and thirty-three percent said it did not change their position on the measures.

⁵ Definitely vote yes: 29 percent; probably vote yes: 18 percent; lean toward voting yes: 12 percent.

⁶ Definitely vote no: 18 percent; probably vote no: eight percent; lean toward voting no: four percent.

Reaction to educational and critical statements about the ballot measures

In order to test a variety of Santa Monica voters' opinions (pro and con) about the proposed companion measure, the survey presented respondents with a series of both educational statements describing the need for increasing the availability of affordable housing in the City, as well as critical statements suggesting reasons why voters should not vote for the proposed measures.⁷

Educational Statements

After each educational statement was read, respondents were asked to indicate whether hearing the educational statements made them more inclined to vote for the measure. More than 60 percent of Santa Monica voters said they were more inclined to support the measures because **educational messages included the need to provide a safety net for vulnerable individuals and ensuring local control and accountability for affordable housing funds.** The individual results on these messages are presented below:

- This measure provides a safety net to Santa Monica residents who are vulnerable to losing their home (*67 percent more inclined to vote yes after hearing this statement*).
- This measure gives Santa Monica locally controlled funds to make affordable housing more available (*66 percent more inclined to vote yes after hearing this statement*).
- This measure includes strict fiscal accountability to ensure that funds will be spent as promised (*64 percent more inclined to vote yes after hearing this statement*).

A presentation of educational statements increases support for the documentary transfer tax measure to 61 percent, with 32 percent opposed and seven percent remaining undecided. Support for the companion advisory measure increases to 67 percent (two-thirds of the electorate) with 29 percent opposed and five percent remaining undecided.

After the initial vote in response to the documentary transfer tax ballot summary, an explanation of the documentary transfer tax and a reading of educational messages, voters were asked again how they would vote on the measure if an election were held "today." On the second vote, support increased by four percent, from 57 to 61 percent.⁸ Opposition remained at 32 percent.⁹ The percentage of undecided voters declined from eleven to seven percent.

On the second vote, support for the companion measure advising the City to use the revenue generated by increasing the documentary transfer tax to provide affordable housing rose eight percent from 59 to 67 percent.¹⁰ Opposition fell one point from 30 to 29 percent.¹¹ The percentage of undecided voters declined from 12 to five percent (see **Figure 5**).

⁷ Statements are paraphrased in this memo to highlight the key aspect of the statements.

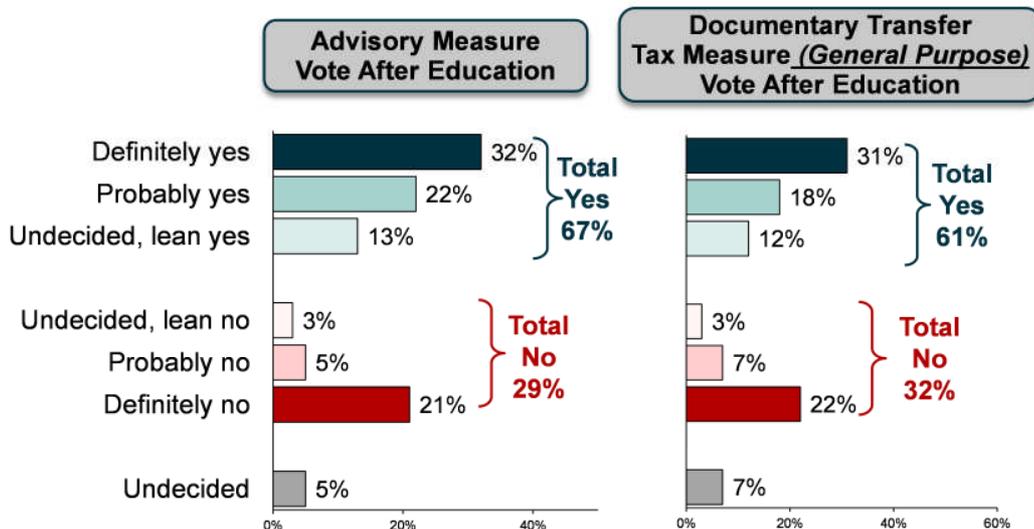
⁸ Definitely vote yes: 31 percent; probably vote yes: 18 percent; lean toward voting yes: 12 percent.

⁹ Definitely vote no: 22 percent; probably vote no: seven percent; lean toward voting no: three percent.

¹⁰ Definitely vote yes: 32 percent; probably vote yes: 22 percent; lean toward voting yes: 13 percent.

¹¹ Definitely vote no: 21 percent; probably vote no: five percent; lean toward voting no: three percent.

Figure 5: Vote after Educational Statements on the Documentary Transfer Tax Measure and Companion Advisory Measure



Critical Statements

Voters were also read critical statements and asked to indicate whether hearing the respective statement would make them more inclined to vote against the measure. The impact of the critical statements is more modest than the educational statements. More critical messages motivated between 35 and 45 percent of respondents to say they would be more inclined to vote no on the measure. These results never met the legal threshold of 50 percent needed to defeat a measure. The critical statements include claims that the measure will increase density and traffic in Santa Monica, that the City already has the necessary funds to provide additional affordable housing and that taxpayers are already overburdened.

After hearing critical statements about the measures, 59 percent of Santa Monica voters still support the documentary transfer tax measure. Thirty-three percent oppose the measure and eight percent are undecided. Sixty-two percent support the companion advisory measure, 29 percent oppose it and nine percent are undecided.

In spite of critical statements made against both measures, voters continue to support the measures at higher levels than the 50 percent plus one threshold necessary for passage (see **Figure 6: Vote after Critical Statements** and **Figure 7: Progression of Vote**). Fifty-nine percent said they would vote yes to increase the documentary transfer tax, a decline of only two percentage points from the vote after educational messages.¹² The percentage of voters who report they would vote no increases one percentage point from 32 to 33 percent.¹³ The undecided voter percentage also increases by one percentage point from seven to eight percent

¹² Definitely vote yes: 26 percent; probably vote yes: 19 percent; lean toward voting yes: 14 percent.

¹³ Definitely vote no: 24 percent; probably vote no: five percent; lean toward voting no: four percent.

Opinions on the companion advisory measure to dedicate funds to providing affordable housing are somewhat more fluid as support falls five percentage points from 67 percent to 62 percent.¹⁴ The percentage of voters who report they would vote no increases one percentage point from 28 to 29 percent.¹⁵ The percentage of undecided voters increases from five percent to nine percent.

Figure 6: Vote after Critical Statements on the Documentary Transfer Tax Measure and Companion Advisory Measure

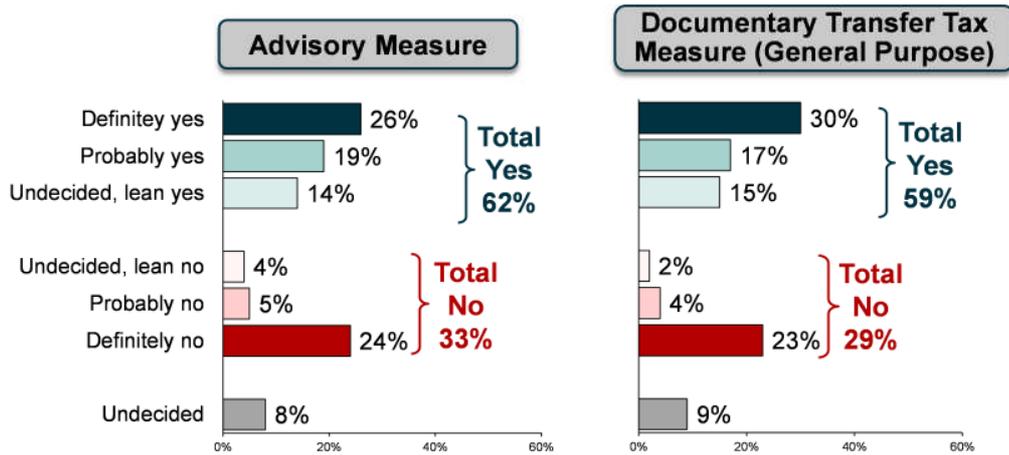
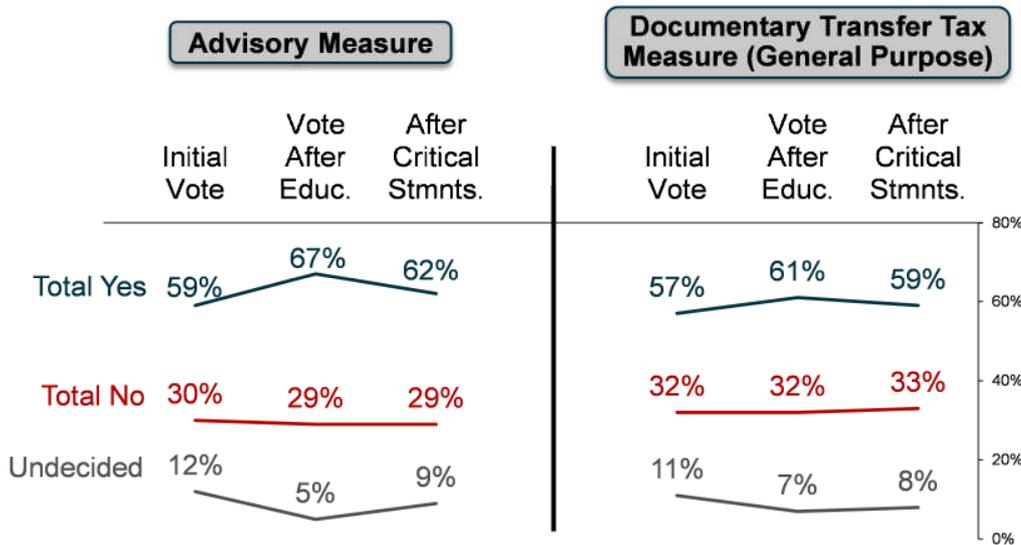


Figure 7: Progression of Votes on the Documentary Transfer Tax Measure and Companion Advisory Measure



¹⁴ Definitely vote yes: 32 percent; probably vote yes: 17 percent; lean toward voting yes: 15 percent.

¹⁵ Definitely vote no: 23 percent; probably vote no: four percent; lean toward voting no: two percent.

Support for the ballot measures at different tax rates and structures

A majority of respondents reported that they would support an alternative dedicated measure that would expressly link the increase in the documentary transfer tax to spending on providing affordable housing.

The alternative measure was supported by as many as 61 percent of respondents with 35 percent opposed and 3 percent undecided. This level of support is well above a simple majority, but below the two-thirds threshold needed for this dedicated type of measure to pass.

More than half of voters reported that different tax rates and structures would make them more likely to support the measures.

As the structures of the measures are still being determined, the survey tested different tax rates and structures to understand their impact on overall support. More than half of voters said that the following would make them more likely to support the measures:

- If the documentary transfer tax were set at a higher rate for higher-priced properties (*57 percent Much More/Somewhat More Likely*)
- If the documentary transfer tax increase only applied to sales of property over five million dollars (*57 percent*)
- If the measure raised the documentary transfer tax by \$3 instead of \$6 per \$1,000 of sales (*54 percent*)

Importance of how the Documentary Transfer Tax funds are spent

Nearly three-fourths of Santa Monica voters report that they would be more likely to support the ballot measures if funds were used to support vulnerable seniors.

Among the many potential ways to increase affordable housing in Santa Monica, voters reported the following four components would make them much more or somewhat more likely to support the measures at rates of between 62 and 72 percent:

- Using funds for rental housing support for vulnerable seniors who are at risk of losing their assistance due to state actions (*72 percent Much More/Somewhat More Likely*)
- Making loans to non-profit housing organizations to renovate older apartment buildings for additional affordable housing (*69 percent*)
- Providing short-term, transitional housing subsidies to Santa Monica residents who are at risk of becoming homeless (*69 percent*)
- Making loans to non-profit housing organizations to acquire land and build additional affordable housing (*62 percent*)

Roughly seven-in-ten Santa Monica voters report that they would be more likely to support the measures if funds were set aside in a separate trust fund used solely for providing affordable housing or if the measure required that preference for affordable housing be given to people who live or work in Santa Monica.

Voters were asked about several accountability provisions to ensure funds are used as promised. Respondents said the following provisions would make them much more or somewhat more likely to support the measure at rates between 53 and 72 percent:

- Requiring that all funds be set aside in a separate Santa Monica Affordable Housing trust fund so that funds cannot be used for other purposes (*72 percent Much More/Somewhat More Likely*)
- Requiring that preference for affordable housing funded by the measure be given to people who live or work in Santa Monica (*69 percent*)
- Requiring the measure to expire after 10 years (*53 percent*)