



CITY OF SAN MATEO

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330 W. 20th Avenue
San Mateo CA 94403
www.cityofsanmateo.org

Agenda Report

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TO: City Council

FROM: Drew Corbett, City Manager

PREPARED BY: City Manager's Office

MEETING DATE: June 20, 2022

SUBJECT:

Ballot Measure to Increase Existing Real Property Transfer Tax Rate for Properties Sold for \$10 Million or More

RECOMMENDATION:

Introduce an Ordinance to amend provisions of Chapter 3.48 "Real Property Document Transfer Tax" of the San Mateo Municipal Code to increase the City's existing real property transfer tax from 0.5% to 1.5% for properties sold or transferred for \$10 million or more; and adopt a Resolution to call the election and place the measure on the November 8, 2022 ballot.

BACKGROUND:

The City has taken significant steps to reduce expenditures and respond to the economic impacts of the COVID-19 pandemic. While progress has been made to balance the City's operational budget, the fiscal year 2022-23 General Fund budget is expecting a \$4.7 million deficit and the long-range financial forecast indicates the General Fund is expected to draw down nearly \$30 million in reserves over the next 5 years. Furthermore, concerns over the State's potentially unconstitutional reduction of excess Educational Revenue Augmentation Funds due to the property tax in lieu of Vehicle License Fee (VLF) shortfall could impact the City's budget. The fiscal year 2022-23 budget is scheduled for adoption during this meeting and further details about the City's financial forecast were presented during the June 6, 2022 Council review of the proposed budget and capital improvement program.

Nearly \$300 million in unfunded capital needs have also been identified, including improvements to recreation and library facilities, repaving roads to prevent failed streets, implementing environmental sustainability efforts, and improving safety for pedestrians and bicyclists. To maintain and enhance vital services to the community, the City has explored potential revenue enhancement measures.

Earlier this year, the City hired independent survey firm True North Research to gauge the community's priorities and the feasibility of potential revenue measures that could be placed on the November 8, 2022 ballot. After considering the survey results during a study session on May 16, 2022, the City Council directed staff to proceed with a ballot measure to increase the City's existing Real Property Transfer Tax (RPTT) for properties sold or transferred for \$10 million or more. A draft ordinance to amend provisions of Chapter 3.48 "Real Property Document Transfer Tax" of the Municipal Code, which includes proposed ballot language, is included as Attachment 2.

Changes to Real Property Transfer Tax

As a charter city, San Mateo has an existing voter-approved RPTT that has been in effect since 1977 and includes a flat rate of 0.5% (one-half percent) for all properties, regardless of their sales price. RPTT applies to commercial as well as residential properties, and is only paid when a property is sold or transferred – ie. it is not paid annually.

Other charter cities in the Bay Area, including San Francisco, Berkeley, Oakland, Richmond, and San Jose have recently

shifted from a flat rate to a tiered structure. Staff evaluated several alternatives to adjust the RPTT to a tiered system, whereby properties sold for a higher amount would pay a higher tax rate. Based on property sales and transfers in fiscal year 2020-21, it is anticipated increasing the City's RPTT only for properties sold for \$10 million or more could generate \$4.8 million annually and would only affect 0.5% of properties sold.

It's important to note that properties sold or transferred for less than \$10 million, which constitute the vast majority of total sales, would not experience any change to the existing RPTT. According to the San Mateo County Association of Realtors, in calendar year 2021 in the City of San Mateo the median sale price of a single-family home and of a condo was \$1.84 million and \$880,000, respectively.

Table 1: RPTT Scenario Based on 2021 Sales

Property Sale Price	% of Total sales in 2021	Tiered Rate	Revenue Under Tiered Rate	Revenue Under Status Quo	Difference
\$0 to \$10 million	99.5%	0.50%	\$9.5	\$9.5	\$0.0
\$10 million and above	0.5%	1.50%	\$7.2	\$2.4	\$4.8
Total (in millions)			\$16.7	\$11.9	\$4.8

Revenue Enhancement Measure Evaluation

During the City's consideration of potential measures, True North Research conducted a split poll to gauge voter support for either a sales tax increase or changes to the RPTT. Half of the 678 participants were polled on a multi-tiered RPTT structure that included the lowest tier set at \$2.5 million. Only 49% of respondents indicated support for such a structure, although support increased slightly when asked if they would support setting the lowest tier at \$3 million. Although support was higher for the sales tax increase, during the May 16 study session, several Council members indicated concern over proposing a sales tax at this time due to current inflation and as it is traditionally viewed as a more regressive tax. Council instead preferred an RPTT measure with a more streamlined two-tier structure with only changes to the rate paid by properties sold for \$10 million or more. Because the survey did not include this particular RPTT structure, it is unknown how participants may have responded and whether support would have been higher.

Many voters may not be familiar with what an RPTT is, therefore staff and True North Research recommend the City provide the public with neutral information about the measure, as permitted by law. Staff has contracted with TBWBH, a communications consulting firm that specializes in local government measures and has worked extensively in San Mateo County and the Bay Area. Staff is requesting a supplemental budget appropriation of \$80,000 of unassigned fund balance from the General Fund to the City Manager's 2021-22 operating budget to cover these consulting services.

General Tax Measure & Ballot Language

General tax measures require a simple majority of voter approval and must be placed on a ballot during a regular election. Attachment 1 is a resolution to call a general municipal election on Tuesday, November 8, 2022 for the purpose of submitting a proposed ordinance to increase the City's RPTT for properties sold or transferred for \$10 million or more. At least four Council votes are needed to approve the ordinance and resolution placing the measure on the ballot.

The proposed 75-word ballot measure is as follows:

To fund essential local general services in the City of San Mateo, such as street repairs, parks, recreation, fire protection, emergency response, and crime prevention; and improving intersections, sidewalks and bike lanes for safety and reduced traffic congestion; shall the measure, increasing the City of San Mateo's existing transfer tax on property sales of \$10 million or more, from 0.5% to 1.5%, generating approximately \$4.8 million annually, until ended by voters, with independent audits and all money locally controlled, be adopted?

The deadline to submit a measure to the County Elections Office is Aug. 12, 2022. While there is one more regularly-scheduled meeting before this deadline on July 18, the Council may introduce the ordinance and place the measure on the ballot at this meeting.

The deadline to submit primary ballot arguments is August 19, 2022, and rebuttal arguments are due August 29, 2022. Council can decide to allow members of the community to submit ballot arguments, which occurred during 2015 for Measure S. Or if Council prefers to submit a ballot argument itself, a Council subcommittee can draft the argument that would be brought back for full Council consideration at a subsequent meeting.

BUDGET IMPACT:

A supplemental budget appropriation of \$80,000 of unassigned fund balance from the General Fund to the City Manager's 2021-22 operating budget is required.

ENVIRONMENTAL DETERMINATION:

This item is not a project subject to CEQA, because it can be seen with certainty that it will not cause a physical change in the environment. (Public Resources Code Section 21065.)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 – Proposed Resolution

Att 2 – Proposed Ordinance (Exhibit A to Proposed Resolution)

STAFF CONTACT

Samantha Weigel, Communications Manager
sweigel@cityofsanmateo.org
(650) 522-7005

Rich Lee, Finance Director
rlee@cityofsanmateo.org
(650) 522-7102