Calif. eyes ending tax breaks for vacation homes

By Matt Levin, CalMatters

Lifelong Californian Lori Thompson is well aware of the state's dire affordable housing problem. She's just wondering why she's the one who has to pay to fix it.

After her daughter moved to Reno to escape high rents in the Monterey Peninsula, Thompson and her husband decided last December to purchase a $360,000 cabin in South Lake Tahoe. It will allow them to spend summers where Thompson used to vacation as a child and to be closer to their grandchildren.

But now, as the state grapples with nearly 6 million California households struggling to afford housing, legislators are turning to people like the Thompsons as a logical source of revenue—owners of a second home who deduct the interest they pay on it from their state income taxes.

AB71 would eliminate that deduction and channel the gains—at least $220 million annually, according to initial estimates by the state Franchise Tax Board—to a state affordable housing program. Supporters say that would cover the cost of creating 3,000 new units of affordable housing, and it could leverage $600 million to $1 billion in additional federal housing dollars.

"During this housing crisis we have to be sure everyone has a roof over their heads before we provide tax breaks to people with two roofs," said the bill's sponsor, Democratic Assemblyman David Chiu of San Francisco.

California's unmet housing needs

Thompson acknowledges California's housing crisis needs attention—because of soaring Silicon Valley apartment rental rates, she and her husband invited a college student who attends their church to live rent-free in their San Jose home. But she's adamant that taxing vacation homes is not the answer—and that without the mortgage interest deduction, she might not have ever bought a second property in the first place.

"There's a lot of people I know who have second homes in California. They're not wealthy but they're comfortable," said Thompson, a 61-year-old retiree. "My husband and I don't drive expensive fancy cars. We chose a second home over traveling."

AB71, which last week cleared the Assembly's housing committee, would apply only to Californians who spend a significant amount of time in their second homes. Those who rent out second properties could continue to deduct mortgage interest from their state tax returns (the Internal Revenue Service defines a rental property as a property where the owner spends less than 10 percent of time compared to rental tenants.)

Currently, Californians can deduct interest from up to a million dollars in mortgage debt.

Given that Gov. Jerry Brown and Democratic lawmakers failed to reach a compromise on affordable housing funding last year, Assembly and Senate Democrats now are championing a fleet of bills to address California's soaring housing costs. Legislators already have sent more than 100 housing-related bills to the Assembly Housing and Community Development Committee alone—well above the number introduced last year.

So just how many Californians own second homes, and who are they?

While traditionally considered an untouchable third rail of tax policy, the mortgage interest deduction has come under renewed scrutiny of late precisely because the deduction disproportionately benefits wealthy homeowners.

Nearly three-quarters of the tax benefit from mortgage interest deductions at the federal level go to households with cash incomes above $100,000, according to the Tax Policy Center.

AB71 targets an affluent group of Californians—those wealthy enough to afford a second house and not use it primarily for rental income. But it wouldn't necessarily affect the richest of the rich, who may not need to finance a second property. Over the past ten years, about 44 percent of second homes not used for rentals were purchased without a mortgage, according to data from the California Association of Realtors.

Where are California's second homes?

Based on data from the federal home lender Fannie Mae (and not their own internal tax data), the Franchise Tax Board estimates that 195,000 homeowners would be affected by AB71. On average, each of these second homeowners reduces his or her taxes by about $1,140 annually by taking advantage of the second mortgage interest deduction. That's in addition to the sizable tax breaks they receive at the federal level on both their properties, which disproportionately benefit households with high incomes.

The state lacks a surprising amount of data on second homeowners, including their average income. So while it's safe to assume that second homeowners are more wealthy than your average California taxpayer, by how much more remains unknown. The National Association of Realtors estimates that nationally, second home buyers have a median household income of about $91,000.

As for their location within California, certain regions contain high concentrations of second homes. In tiny Alpine County, home of the Kirkwood Mountain Resort, more than 70 percent of the housing stock is comprised of vacation homes, according to U.S. Census data analyzed by the National Association of Home Builders. More than half of the homes in Mono County, near Mammoth Mountain, are seasonal.

That has led to concern from some of these regions that the bill could exact a hefty toll of their local economies and housing markets.

“Local county assessors from my district have relayed their concerns regarding the removal of the (second mortgage interest deduction) and the potential impacts it could have for property values throughout California,” said Republican Assemblyman Frank Bigelow, whose district includes all of Alpine and Mono counties.

The revenue rub and the governor

Bigelow and legislators from both sides of the aisle supported a 2015 bill Chiu sponsored that increased funding for the state Low Income Housing Tax Credit program by $300 million, but it did not eliminate the mortgage interest deduction on second homes. After it won near-unanimous passage in both chambers, Brown vetoed the bill, noting that it lacked a way to pay for itself.

While Brown has not taken a position on the new bill, Chiu expressed confidence that eliminating the second mortgage interest deduction would appease the fiscally cautious governor. “I have received every indication that if we are successful in passing this, that the governor will consider it seriously,” he said.

But while attaching a new revenue source to affordable housing may satisfy the governor, it means the bill faces a precarious political path through the Legislature, where it needs a two-thirds approval vote in both chambers because it is a tax measure.

That means supporters can’t afford to lose moderate Democratic votes in the Assembly or Senate, and will need to deflect the potent lobbying influence of the California Association of Realtors, which opposes the bill. The Realtors contributed $1.1 million to state legislative candidates in 2016, including $723,000 to Democrats, according to data from the National Institute on Money in Politics.

Realtors big spenders in legislative campaigns

Chiu "is trying to do the right thing," said Stan Wieg, the association's vice president. "He's looking for a source of funding. We just think it's misdirected."

A spokesman for Assemblyman Jim Cooper of Elk Grove, co-chair of the Assembly moderate Democratic caucus, said that he had not yet had time to study the bill.

Trump complicates 'dire need' for housing dollars

Even with its designated new funding source, AB71 could face push back from the governor's office on the amount of revenue the bill forecasts.

The state will be on the hook for $300 million in additional state housing funds regardless of how much money the elimination of the second mortgage interest deduction actually brings in. But the Franchise Tax Board did not incorporate into its initial revenue forecast any possible behavioral responses to the bill—such as a drop in the number of people buying second homes, or more second homeowners converting their properties to rentals.

Affordable housing advocates across the state argue that the $300 million would provide a small but critical boost to the state's affordable housing supply, given the state's urgent need and looming federal housing programs cuts.

The Trump administration is reportedly mulling a proposal to cut $6 billion from the U.S. Department of Housing and Urban

Development, a dramatic rollback that could affect multiple affordable housing programs in California.

AB71 would direct $300 million to the state’s low-income housing tax credit program, which pairs state tax credits with federal tax credits to attract investors in low income housing projects.

While investor demand for affordable housing tax credits could be waning, the U.S. tax credit program is one of the few federal housing programs receiving significant bipartisan support and not on Trump’s chopping block. That makes affordable housing advocates all the more eager to tap one of the remaining reliable sources of federal funds.

“In the face of greater cuts to federal funding through the HUD budget, California needs affordable housing investments at the state level now more than ever,” said Sarah Brundage, state and local policy director for the affordable housing developer and advocacy group Enterprise Community Partners, Inc.

“The (tax credit program) in California and nationally is currently the greatest investment we make in housing. So this bill would play a crucial role in ensuring developments can pencil out.”

Other pending California bills take a different approach to funding affordable housing. One by Democratic Sen. Toni Atkins of San Diego would levy a $75 recording fee on real estate documents, excluding property sales. The California Association of Realtors supports that bill, but it’s opposed by mortgage lenders and county recorders.

While maintaining that the governor has not taken any position on AB71, a spokeswoman for Brown said that the governor is generally supportive of the Atkins bill.

40 years in prison for Vallejo kidnapper with ties to Tahoe

By Brittny Mejia, Los Angeles Times

A Harvard-educated former attorney was sentenced to 40 years in prison for kidnapping a woman in a case that police in Vallejo once portrayed as a hoax.

Matthew Muller

The case cast a harsh light on not only the suspect, Matthew Muller, but also the Vallejo Police Department.

Muller, 39, pleaded guilty last year to abducting Denise Huskins and holding her in his family's South Lake Tahoe home for two days.

In an emotional scene, Huskins recounted her ordeal at the hands of Muller and asked that he be sentenced to life in prison.

Read the whole story

Knights Inn environmental gains in jeopardy

By Kathryn Reed

TAHOE CITY – Days after South Lake Tahoe officials were celebrating the **acquisition of the Knights Inn** property, the Champagne has gone flat thanks to the California Tahoe Conservancy board.

The city was back before the state board on March 16 to finalize its request to obtain grant dollars that would fund the environmental improvements at the site.

South Lake Tahoe was under the impression it was still in the running for these Proposition 1 dollars. It had never been given a deadline to provide the CTC with the requisite information.

The city will release the California Environmental Quality Act documents on Monday. Comments will be taken for 30 days. That was one requirement of the CTC. The CTC also sought more detailed information on the stream environmental zone restoration. The city provided documentation.

What got contentious at Thursday's meeting in Tahoe City was whether the project presented was substantially different compared to the first application. Why this would matter is that the dollars being used are being awarded under a competitive bid process so there cannot be any sense of favoritism because that could trigger the threat of a lawsuit by parties that were denied funding. Clarifying information is legal, but amendments or resubmissions are not permissible.

Hal Cole, the city’s rep on the CTC board, as well as city staff, are adamant the project is the same, only with more detail as required by the CTC. The board was not convinced.

The board believed going from 2 acres to 1.1 acres of restoration is hugely different. Cole explained that overall the same acreage will be treated; it’s just the level of detail of restoration that is in question.

The definition of SEZ was also debated even though the Tahoe Regional Planning Agency has a definition for it.

What the board didn’t discuss even though it was stressed by the city is that the original request of $5.4 million had been reduced to $3 million. City staff tried to draw a parallel between the revised SEZ numbers and the dollar amount.

Cole proposed a motion that would have CTC staff members and whomever else they wanted to look at the current paperwork to deem if the project was the same. That vote failed 4-2, with Cole and Paula Frantz of El Dorado County in the minority. Board member Larry Sevison, who represents Placer County, was absent.

The motion that passed unanimously was to have the Conservancy open round two of the Proposition 1 funds, of which the city was encouraged to apply. This will occur on March 17. There will be $3.6 million total available. (In round one $9.5 million was awarded for nine projects.) Depending on the number of applications for the next round, funding would be awarded in September or December.

The external committee that originally ranked the 32 projects from round one called the city’s project “transformative.” That is one reason it was recommended for funding – that it would daylight a stream that has been paved over and would reduce the amount of sediment draining into Lake Tahoe by 20 percent.

Right now that gunk, as Cole called it, winds up at Ski Run Marina. The proposed project on an annual basis would reduce the silt reaching Lake Tahoe by 8,200 pounds, 77 pounds of nitrogen and 25 pounds of phosphorous would also no longer reach the lake.

The Knights Inn project will go forward. As of today it is a redevelopment project only.

“Without the CTC partnership, we will not have the environmental gains,” City Manager Nancy Kerry told the board before the vote.

Some city staff are wondering why they would apply again if the project has essentially been denied. But Conservancy board members after the vote said that isn’t exactly what the vote said. The vote, some said, was about fairness for the process and not about the project itself.

It will be up to city staff to determine the course of action going forward. Waiting six to nine months to know if there is funding for the environmental component for the Knights Inn project would delay the entire process. The plan earlier this week was for demolition to occur in early summer, construction to start in late summer and the Whole Foods 365 — and probably other retail entities — to open in spring 2019.

With the city discussing its mid-year budget in April, this could be a topic then.

Douglas County against

recreational pot sales

Douglas County is on a path to not allow recreational marijuana.

Planning commissioners on March 14 ruled that retail dispensaries, cultivation, testing, product manufacturing and distribution facilities will not be allowed.

This does not affect the use of marijuana.

Nevada voters last fall approved recreational marijuana. However, Douglas voters were against it. The measure allowed the county to have two dispensaries if it so chose to.

Bob Fehskens of Zephyr Cove, co-owner of High Sierra Cannabis, had hoped for a different outcome because he and his partners had planned to open a shop in Stateline. He was the lone speaker Tuesday supporting recreational pot shops in the county.

Ultimately it will be up to the Board of Commissioners to decide the fate of the sale and production of recreational marijuana in Douglas County.

– Lake Tahoe News staff report

Poor leaving Calif., wealthy moving in

By Phillip Reese, Sacramento Bee

California exports more than commodities such as movies, new technologies and produce. It also exports truck drivers, cooks and cashiers.

Every year from 2000 through 2015, more people left California than moved in from other states. This migration was not spread evenly across all income groups, a Sacramento Bee review of U.S. Census Bureau data found. The people leaving tend to be relatively poor, and many lack college degrees. Move higher up the income spectrum, and slightly more people are coming than going.

About 2.5 million people living close to the official poverty line left California for other states from 2005 through 2015, while 1.7 million people at that income level moved in from other states – for a net loss of 800,000. During the same period, the state experienced a net gain of about 20,000 residents earning at least five times the poverty rate – or $100,000 for a family of three.

Read the whole story

ICE arrests 61 immigrants in Nevada

By Marcella Corona, Reno Gazette-Journal

Federal agents arrested 25 people in Reno during a week-long operation that targeted illegal immigrants.

In total, 61 foreigners from six countries were arrested. Of that total, 55 people had criminal histories. That includes prior convictions for sex crimes, drug offenses and domestic violence, according to U.S. Immigration and Customs

Enforcement.

Of the 55 arrested, 18 were previously convicted of driving under the influence. Eight people also had prior drug offenses, and seven were convicted of fraud or identity theft.

Read the whole story

Calif. climate change goals require lifestyle changes

By Liam Dillon, Los Angeles Times

To meet the bold new climate change goals put in place last year, California will work to put millions of electric cars on the road, revolutionize its dairy industry and generate half of all power from solar panels and other renewable sources.

But those efforts will come up short, warn state regulators, without dramatic changes to how Californians live and travel.

The state has pledged to reduce its greenhouse gas emissions to 40 percent below 1990 levels by 2030.

Californians will have to walk, bike and use mass transit much more frequently than they do now. By 2030, residents will have to travel by foot four times more frequently than they did in 2012, alongside a nine-fold increase in bicycling over the same time, and a substantial boost in bus and rail ridership, climate officials say.

Read the whole story

Nev. legislators exempt from public records rules

By Colton Lochhead, Las Vegas Review-Journal

A series of kerfuffles involving politicians' emails has sparked a nationwide call for elected officials to embrace transparency. But members of the Nevada Legislature show no intention of opening their records to the public.

The Legislature tells governmental agencies statewide what is and is not a public record. But members of the Legislature are exempt from those very laws.

Unlike their municipal counterparts, state legislators have little to no public paper trail. Their emails, appointment calendars that detail which lobbyist or lawmaker they meet and all other forms of communications are not bound by Nevada's open records rules.

Read the whole story

LTUSD standing up for immigrant students

By Kathryn Reed

Lake Tahoe Unified School District is doing everything it can to help families who feel threatened by the federal government’s attack on immigrants.

“We are going to follow the law. We all know if a child is going to come to school afraid, they aren’t going to learn,” board member Larry Reilly said at the March 14 meeting. “We are going to take that (fear) away.”

The law Reilly referenced is Plyler v. Doe, the 1984 U.S. Supreme Court decision that said public schools must enroll all eligible students regardless of their citizenship or immigration status. State and federal laws prohibit schools from disclosing student information to law enforcement without the consent of a parent or guardian.

The resolution that was unanimously approved Tuesday night does not change any policy. It essentially put an exclamation point on the matter.

To underline the district’s beliefs even more, board President Barbara Bannar read the entire resolution into the record. Normally resolution titles are all that are verbalized.

The staff report said, “This resolution is intended to make clear to staff, students, and their families that all students have a right to attend school regardless of their immigration status, and aims to make families and students feel safe at school, so that they continue to come to school.”

Cindy Martinez, principal of Bijou Community School, said, “The needs for families are very unique and very diverse.”

She said some have received letters for possible removal from the United States. Then there are the attorneys who have called families saying they will help, which scares people more and could just be a scam. Rumors are flying; two weeks ago people were chattering about agents from ICE (Immigration and Customs Enforcement) coming to town.

People are confused and scared.

Martinez's goal is make Bijou be as comforting of a refuge as it can be. Working one-on-one with people has been the best, she said.

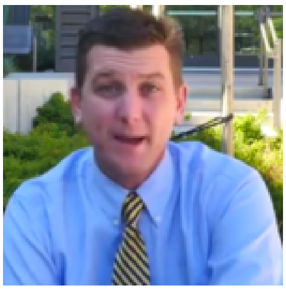
Bijou is the main focus because it has the largest concentration of Hispanic families who could be affected by any roundup by the feds.

The Family Resource Center has also been a big help to provide information to concerned residents. That agency is working in concert with the school district.

STHS principal resigns under fire

South Tahoe High School will have a new principal next school year.

On Tuesday night the Lake Tahoe Unified School District board of education accepted Chad Houck's resignation. Houck has been in a tenuous position for about a year; ever since the school received a two-year probationary accreditation last spring.



Chad Houck

When the district learned last month that its appeal to the Western Association of Schools and Colleges was denied,

Houck’s future was sealed.

The district will begin the search for a principal later this month. This is Houck’s third year at STHS.

Also at the March 14 meeting the board released an assistant elementary principal “because of the level of revenue from the state,” Superintendent Jim Tarwater told *Lake Tahoe News*. This will provide the district with some flexibility for next school year with where to place this individual.

The district was expecting $1.4 million from the state and is instead getting $402,000. With the number of classified and certificated employees who will be retiring at the end of this school year, the district anticipates a savings of $1 million. It is balancing the books through attrition.

– *Lake Tahoe News staff report*