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Building for the Future: Alternatives to Address California's Housing Crisis Through Municipal Finance Reform

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Building For the Future: Alternatives to Address California's Housing Crisis Through Municipal Finance Reform

In Partnership With the Milken Institute Center for Regional Economics

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Glossary

Affordable housing: *A dwelling is considered affordable if a household pays no more than 30% of its gross income on housing costs. Affordable housing can be subsidized by the government to keep costs low compared to residential units on the open market.*[1]

California Documentary Transfer Tax Act: *The Act authorized California counties and cities to impose a tax when real property changes hands.*[2]

Charter law city: *A city that has adopted a charter, or document, that functions as a local constitution of sorts giving it "supreme authority" over municipal affairs.*[3]

Cost-burdened: *A household that spends more than 30% of its gross income on housing.*[4]

General law city: *A city that has not adopted its own charter and doesn't have supremacy over "municipal affairs."*[5]

Howard Jarvis Taxpayers Association: *A non-profit organization that charges itself with protecting Proposition 13 and was founded by that initiative's chief proponent, Howard Jarvis.*[6]

Land value tax: *A tax on the value of unimproved land that does not consider the value of any buildings or improvements on that land when it is assessed.*[7]

Low-income household: *Refers to households with incomes 50% to 80% of local area median income (AMI), although the term can also refer to households with incomes of 0% to 80% of*

[1] California Department of Housing and Community Development- March 2022, "A Home for Every Californian," ArcGIS StoryMaps, April 4, 2022, https://storymaps.arcgis.com/stories/94729ab1648d43b1811c1698a748c136.
[2] Robert P. Merten III, Nicholas Kump, and Eric J. Coffill, "Imposing Documentary Transfer Taxes In Calif. After Ardmore," *Law360*, July 7, 2016, https://www.pillsburylaw.com/en/news-and-insights/imposing-documentary-transfer-taxes-in-calif-after-ardmore.html.
[3] University of California, Berkeley, School of Law. "Foundational Aspects of Charter Cities." Accessed April 1, 2022. https://www.law.berkeley.edu/files/Albuquerque3_-_Foundational_Aspects_of_Charter_Cities.pdf
[4] March 2022, "A Home for Every Californian."
[5] Foundational Aspects of Charter Cities
[6] Howard Jarvis Taxpayers Association. "The History of HJTA." Accessed April 12, 2022. https://www.hjta.org/about-hjta/the-history-of-hjta/
[7] U.S. Department of Transportation Federal Highway Administration. "Land Value Tax." Accessed April 12, 2022. https://www.fhwa.dot.gov/ipd/value_capture/defined/land_value_tax.aspx#:~:text=A%20land%20value%20tax%20is,the%20rental%20value%20of%20land.

AMI. Federal and state housing programs provide subsidized housing for people based on income.[8]

Property tax: *A tax on real property in California that incorporates the value of land and improvements, like a structure, to generate an assessment.*[9]

Proposition 13: *Passed in 1978, it amended the California Constitution to assess real property value for tax purposes at the time of sale, and capped taxes to 1% of value.*[10]

Proposition 15: *A failed 2020 ballot initiative that would have assessed taxes on commercial and industrial real property at their market value, as opposed to purchase price.*[11]

Proposition 19: *Reformed the property tax code and eliminated the part of the law that allowed parents to pass on their homes and assessed values to their children unless the children declare the property as their primary residence.*[12]

Split-rate tax: *A real estate tax structure in which land and improvements to that land are taxed at different rates.*[13]

[8] March 2022, "A Home for Every Californian."
[9] Legislative Analyst's Office. "Understanding California's Property Taxes." Accessed April 12, 2022. https://lao.ca.gov/reports/2012/tax/property-tax-primer-112912.aspx
[10] Ballotpedia. "California Proposition 13, Tax Limitations Initiative (June 1978)." Accessed March 7, 2022. https://ballotpedia.org/California_Proposition_13,_Tax_Limitations_Initiative_(June_1978).
[11] Ballotpedia. "California Proposition 15, Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative (2020)." Accessed March 10, 2022, https://ballotpedia.org/California_Proposition_15,_Tax_on_Commercial_and_Industrial_Properties_for_Education_and_Local_Government_Funding_Initiative_(2020).
[12] "About Proposition 19 (2020) | CCSF Office of Assessor-Recorder," City and County of San Francisco Office of the Assessor-Recorder, accessed March 11, 2022, https://sfassessor.org/Prop19.
[13] Hopton, Ian. "1. The Pittsburgh Experience | Land Value Tax Guide." Accessed March 28, 2022. http://landvaluetaxguide.com/the-pittsburgh-experience/.

Executive Summary

As California faces a crisis of affordable housing, policymakers must consider alternatives that will lead to the creation of equitable housing solutions. The enactment of Proposition 13 in 1978 prevented the influx of an abundance of revenue that could have been used for the development of affordable housing in California.

This report examines three policy alternatives to foster additional revenue generation towards the development of affordable housing units throughout California: a land value lax (LVT), progressive property transfer tax, and reform of Proposition 13. Additionally, this report evaluates each policy alternative according to four criteria: political feasibility, technical feasibility, revenue generation, and equity. The study frames alternative projections in terms of their effects on 13 case study cities representing California's largest cities by population: Anaheim, Bakersfield, Fresno, Long Beach, Los Angeles, Oakland, Riverside, Sacramento, San Diego, San José, San Francisco, Santa Ana, and Stockton. These 13 cities represent a large proportion of California's population, and additionally are representative of the many diverse demographics, landscapes, housing types, and densities that can be found within the state.

The analysis finds that all of our alternatives would generate substantial revenue towards the development of affordable housing in California. While no one alternative emerges as the clear best option, each features its own strengths and weaknesses. A land value tax excels most at revenue generation, a progressive property transfer tax poses the least political and technical feasibility issues, and a reformed Proposition 13 would best reverse policy decisions that have harmed California's most historically marginalized populations. Additionally, reform of revenue-agnostic measures such as cumbersome bureaucratic processes and restrictive zoning ordinances is necessary to fully address the state's housing shortfall. As there is no panacea for

California's affordable housing crisis, researchers recommend pursuing the alternative, or combination of alternatives, that best fits each municipality's political context, demographic make-up, and municipal financing framework.

Introduction

Policy Setting

California is currently experiencing an historic shortage of housing attainable to low- and middle-income renters and prospective homeowners. In the housing landscape, a household is "cost-burdened" if it pays more than 30% of its income on housing. Currently, more than a third of California households are cost-burdened or severely cost-burdened. According to the 2022 Statewide Housing Plan, California "has the least affordable housing in the U.S."[14] The state must plan for over 2.5 million new homes in the next eight years and at least 1 million of those homes would need to be affordable for low-income Californians.[15] This means the state would need to build over 100,000 affordable homes a year by 2030 to keep up with demand.

Other statistics can help to illustrate the scale and scope of the problem. Median rents in the state have increased by 35% since 2000 even though median renter household income has only increased by 6%.[16] The statewide median sales price of a single-family home was $827,940 in 2021, a record high.[17] Nearly 80% of low-income renter households are severely cost burdened, meaning they pay more than half of their income on housing costs.[18] It should be noted that BIPOC renters are more likely to be cost-burdened.[19]

Many of these issues are not new to California. A 2008 report from Harvard's Joint Center for Housing Studies found the Los Angeles-Long Beach-Santa Ana Metropolitan

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[14] March 2022, "A Home for Every Californian."
[15] Ibid
[16] California Housing Partnership, "California Affordable Housing Needs Report 2021" (Sacramento, CA: California Housing Partnership, March 2021), https://1p08d91kd0c03rlxhmhtydpr-wpengine.netdna-ssl.com/wp-content/uploads/2021/03/CaliforniaHousingNeedsReport_2021-CHPC.pdf.
[17] March 2022, "A Home for Every Californian."
[18] California Housing Partnership, "California Affordable Housing Needs Report 2021."
[19] March 2022, "A Home for Every Californian."

Statistical area ranked as the least affordable "hot housing market" in the country.[20] Over 1 million affordable units were lost due to conversion, demolition, or abandonment in the decade between 1997 and 2007.[21] The U.S. Department of Housing and Urban Development (HUD)'s budget was cut substantially during this time as well, particularly the Community Development Block Grant and Home Investment Partnerships programs which allocate states and municipalities the necessary funds to address affordable housing gaps.[22]

Policy Question

Given these problems, we seek to answer the question: *How can reform of public finance models in California improve local and state governments' ability to invest in affordable housing construction?*

Why is this problem important?

Providing a sufficient number of affordable housing units in a state with the highest rate of poverty in the country should be of crucial importance to policymakers wishing to improve the welfare of Californians.[23] Housing is a basic necessity for families. An insecure housing situation can lead to harmful spillover effects in other aspects of life. Studies show that an unstable housing situation can contribute to lower academic performance in children, for

[20] Mintz-Roth, Jesse. Rep. *Long-Term Affordable Housing Strategies in Hot Housing Markets*. Cambridge, MA: Harvard University, 2008.
[21] Edward J. Sullivan; Karin Power, "Coming Affordable Housing Challenges for Municipalities after the Great Recession," Journal of Affordable Housing and Community Development Law 21, no. Issues 3&4 (2012): 299
[22] Edward J. Sullivan; Karin Power, "Coming Affordable Housing Challenges for Municipalities after the Great Recession," Journal of Affordable Housing and Community Development Law 21, no. Issues 3&4 (2012): 297-314
[23] Cato Institute, "An Overview of Poverty and Inequality in California," (2021): 1, https://www.cato.org/sites/cato.org/files/2021-10/Section-1-An-Overview-of-Poverty-and-Inequality-in-California-Updated.pdf

example.[24] Cost-burdened households have less to spend on transportation, utilities, food, clothing, debt servicing, child care, and medical care. Many individuals cannot afford to live near their jobs in expensive city centers, and face unreasonably long commute times.[25] In light of such burdens, it is not unreasonable for people with such struggles to leave the state, leaving it bereft of their talents, diversity of thought, and experiences.

Indeed, the Public Policy Institute of California reports that the state experienced a large emigration of residents to other regions of the country. Population growth has stalled. The Institute reports that the state has "been losing lower- and middle-income residents to other states for some time while continuing to gain higher-income adults." From 2010 to 2019, California lost close to 700,000 lower- and middle-income residents to other states but gained about 113,000 higher-income individuals. An Institute survey showed that one-third of Californians have "seriously considered leaving" because of housing costs.[26] It remains to be seen whether this trend will accelerate as housing costs increase, but the signs are not encouraging.

These figures presage California as a playground for the wealthy. It can and should reverse course to regain its one-time status, forged in the 1950s and 1960s, as a top destination for Americans to call home.[27] Developing a sufficient number of affordable housing units is vital if California is to reclaim that reputation. Lastly, researchers have found that several California cities are ranked highly for the relatively large proportion of their low-income residents who are

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[24] Heather Sandstorm and Sandra Huerta, "The Negative Effects of Instability on Child Development: A Research Synthesis" (The Urban Institute, September 2013), The Negative Effects of Instability on Child Development: A Research Synthesis.
[25] Sisson, Patrick. "Supercommuters, skyrocketing commutes, and America's affordable housing crisis" *Curbed.* June 20, 2017. https://archive.curbed.com/2017/6/20/15834514/rent-transportation-commute-affordable-housing
[26] Hans Johnson, "Who's Leaving California—and Who's Moving In?," *Public Policy Institute of California* (blog), March 28, 2022, https://www.ppic.org/blog/whos-leaving-california-and-whos-moving-in/.
[27] U.S. Census Bureau, "Net Migration Between California and Other States: 1955-1960 and 1995-2000." Accessed April 10, 2022. https://www.census.gov/dataviz/visualizations/051/

able to climb the economic ladder over time, despite housing challenges.[28] It is reasonable to suppose that many more low-income people in those cities could climb the socioeconomic ladder if only they had affordable housing.

Additionally, severe overcrowding due to insufficient affordable housing supply has had major public health implications in larger cities, such as Los Angeles. Research demonstrates that Los Angeles has far and away the highest rate of both overcrowding and severe-overcrowding (defined as housing situations with more than 1 and 1.5 persons per room, respectively) in the nation.[29] People in overcrowded living situations are more likely to be critical workers who must interact with other individuals in person, greatly increasing their exposure rate to diseases and illness such as Covid-19. As overcrowded conditions prevent intra-household quarantine from infected household members, Los Angeles County accounted for almost half of all Covid-19 cases in California despite having only a quarter of the state's population.[30] Moreover, those living in overcrowded housing disproportionately come from Los Angeles County's estimated 814,000 undocumented, largely Latino, immigrants who work for extremely low wages under constant threat of deportation.[31] Determining and enacting the best financial reforms to increase affordable housing stock will greatly bolster the health and quality of life for Los Angeles's most vulnerable populations and protect future residents against the effects of another pandemic.

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[28] Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. 2014. "Where is the Land of Opportunity: The Geography of Intergenerational Mobility in the United States." Quarterly Journal of Economics 129 (4): 1553-1623,

[29] Gendler, Isaac. "Why LA Is So Overcrowded, Why It Is Hurting With COVID, and How Building More Housing in Wealthier Areas Can Help Relieve This." *Abundant Housing LA* (blog), July 15, 2020. https://abundanthousingla.org/why-la-is-so-overcrowded-why-it-is-hurting-with-covid-and-how-building-more-housing-in-wealthier-areas-can-help-relieve-this/.

[30] Ibid

[31] Ibid

Background

Municipal finance policy is the third rail of California property issues. This political reality has been the case since the enactment of the ever-divisive Proposition 13. The measure was largely the brainchild of Republican politician and lobbyist Howard Jarvis, and it passed in 1978 after nearly 65% of California voters elected to cap 1) annual property taxes to 1% of their total assessed value and 2) yearly assessment increases of property value at 2% or the inflation rate of the California Consumer Price Index, whichever is less.[32] Since its enactment, Proposition 13 has and continues to greatly limit the amount of eligible tax revenue California can collect via property taxes, accounting for roughly a 60% decrease in such revenue in the year after passage.[33] In 2020, California voters narrowly rejected Proposition 15 by a margin of 52-48, which would have reformed Proposition 13 to adjust the property tax assessment on owners of commercial and industrial properties with a combined value of $3 million or greater to pay property taxes based on current market value rather than purchase price. While the close outcome on Proposition 15 demonstrates significant voter willingness to engage in finance reform, other revenue generation methods must be explored in the interim instead of waiting several years to mount another reform attempt.

California's historic affordable housing shortage is the result of decades of myopic political choices, at federal, state, and local levels over a period of several decades. At the state level, Proposition 13 severely lessened one of the most crucial streams of revenue for municipal budgets and contributed to an artificially low supply of affordable housing. AB 71, which could have supplied affordable housing funds by eliminating a tax break allowing Californians to deduct interest paid on second homes from state income taxes, ended up buried by interest group

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[32] California Proposition 13, Tax Limitations Initiative (June 1978)
[33] Howard Jarvis Taxpayers Association. "Proposition 13." Accessed March 7, 2022. https://www.hjta.org/propositions/proposition-13/.

opposition.[34] At the federal level, the switch to indirect financing schemes have slowed down the production of affordable housing. Lastly, California municipalities have discouraged the development of denser housing through burdensome permitting procedures and restrictive zoning limitations. Affordable housing policy in California is largely delegated to the individual local jurisdiction, and state law lacks a compliance mechanism to ensure that development processes are enacted. This allows certain municipalities to undermine the processes through zoning constraints and restrictions targeted towards developers who seek to build affordable housing projects. In addition, parking requirements, traffic pattern procedures, and infrastructure requirements burden developers with additional tasks and increase costs associated with development in a sector with an already low profit margin. Procedural measures implemented by municipalities directed at developers can allow residents to block projects by a process called discretionary review.

Federal affordable housing policy began with the efforts of reformers during the Great Depression and reached its peak in the 1960s with the rise of public-private partnerships which built a great deal of affordable housing throughout the country. These acts were supplemented in the 1970s with rental assistance measures like Section 8. However, problems with the financing of the housing developments and the eagerness of developers to leave the program started to expose cracks in the system. Many of the developments began to suffer from poor maintenance and a significant percentage went into default. In response, the federal government shifted focus from public-private partnerships to more indirect financing schemes, such as the Low Income Housing Tax Credit, in which the federal government provides tax credits for state housing agencies to distribute to developers according to one of two criteria: "…either 20% of the units

[34] Matt Levin, "Commentary: Five Things I've Learned Covering California's Housing Crisis That You Should Know," *CalMatters*, January 6, 2021, sec. Housing, http://calmatters.org/housing/2021/01/california-housing-crisis-lessons/.

must be reserved for households making less than 50% of the area median gross income, or at least 40% of the units must be reserved for households making less than 60% of the area median gross income."[35] In practice, however, affordable housing developers who often intend to build 100% affordable housing, take the tax credits and sell them to insurance companies or banks in return for money to invest in their project because the tax credits by themselves are not enough to fund the projects. This process is an inefficient and inadequate funding scheme for affordable housing construction.

California has its own unique affordable housing financing mechanisms, both at the state and local level. The California Department of Housing and Community Development (HCD) lists several programs on its website, including the Affordable Housing and Sustainable Communities Program and Cal Home, which work to increase supply. In January, 2022, for instance, the Newsom Administration announced that $808 million in funding awards for 37 affordable housing projects statewide had been granted, as part of the Affordable Housing and Sustainable Communities program. According to the administration, over $2.4 billion has been awarded to create 15,000 affordable units.[36] California municipalities also invest in affordable housing construction in their jurisdictions through the assessment of impact fees. For instance, in 2017 the City of Los Angeles adopted the Affordable Housing Linkage Fee, which charges a cost to developers for new market-rate residential and commercial projects. The revenue from this fee is used for affordable housing production and preservation. As of May 2021, approximately

[35] Alexa Bach et al., "Ten Principles for Developing Affordable Housing" (Washington D.C.: Urban Land Institute, 2007).

[36] California Strategic Growth Council, "Press Release: Strategic Growth Council Announces $808 Million Investment in Sustainable, Affordable Housing - Strategic Growth Council," January 26, 2022, https://sgc.ca.gov/news/2022/01-26.html.

$38.5 million in revenue was generated through this fee.[37] Although a small sum, the City of Los Angeles believes revenue will increase over time and bring in tens of millions of dollars.[38]

Local redevelopment agencies in California also provided a significant source of money for affordable housing until they were eliminated by Governor Jerry Brown in 2012.[39] The agencies were charged with rehabilitating blighted neighborhoods by subsidizing urban renewal projects. They raised revenue through a financial mechanism known as tax-increment financing. An agency would target a supposedly blighted neighborhood for redevelopment and issue debt to award money to developers to subsidize construction in that area. As property values in the redeveloped neighborhood rose, the agency would get to keep the increased property tax receipts to service its debt.[40] Local redevelopment agencies received 12% of all property tax revenue in the state in 2008 and devoted 20% of their funds to "improve and expand the availability and supply" of affordable housing.[41] Their impact was not insignificant. The agencies created 63,600 new affordable housing units from fiscal year 2001 to fiscal year 2008. During the Brown administration, approximately $1 billion a year was allocated for the development of affordable housing.[42] Concerns by Brown and other officials that the agencies were siphoning tax revenue from other essential government programs and subsidizing wealthy developers with public funds led to their elimination.[43] Another argument against the agencies was that they were spending money on development (not just affordable housing projects) that would have happened

[37] General Manager Ann Sewill to Affordable Housing Linkage Fee Oversight Committee, May 20, 2021, Los Angeles Housing and Community Investment Department, https://housing.lacity.org/wp-content/uploads/2021/05/2020-21-Affordable-Housing-Linkage-Fee.pdf
[38] "Affordable Housing Linkage Fee," last modified September 17, 2021, accessed February 11, 2022, https://housing.lacity.org/policy-data/affordable-housing-linkage-fee
[39] Blount, Casey, Ip, Wendy, Nakano, Ikuo, and Ng, Elaine, "Redevelopment Agencies in California: History, Benefits, Excesses, and Closure" (U.S. Department of Housing and Urban Development, January, 2014),https://www.huduser.gov/portal/publications/redevelopment_whitepaper.pdf
[40] Greenhut, Steven. "California's Secret Government" *City Journal.* January 21, 2011. https://www.city-journal.org/html/california%E2%80%99s-secret-government-13378.html
[41] Redevelopment Agencies in California: History, Benefits, Excesses, and Closure
[42] Redevelopment Agencies in California: History, Benefits, Excesses, and Closure
[43] California's Secret Government

regardless.[44] A counterargument is that to make *affordable housing* pencil out, a developer needs public subsidies.[45] Rightly or wrongly, a large source of financial support for affordable housing disappeared.

It should be noted that California's housing crisis is not strictly a result of inadequate financing. Many California cities and counties have long, unwieldy housing development approval processes. The California Environmental Quality Act provides an avenue for disgruntled residents to block developments in their area. State and municipal finance reform offers a unique solution to the housing shortage. If state and local governments have the opportunity to implement solutions that raise revenues to address the housing shortage it would have a significant effect on the affordable housing crisis.

Though there is an imminent need for affordable housing development in California, processes for developers to create affordable housing are incredibly cumbersome and tedious while they navigate through both the state and federal bureaucratic system to seek funding for projects. As stated in the most recent auditor report, "The State [California] does not have a clear plan describing how or where its billions of dollars for housing will have the most impact."[46] In 2020, the debt limit committee lost and mismangaged $2.7 billion in bond resources, a loss that the committee failed to publicly disclose. Mismanaged requirements for housing developers, such as needing to apply to several agencies with inconsistent aims, can slow development and increase costs on developers for affordable housing.

Another significant barrier to the construction of affordable housing units in California is that most of the state's residential zones are restricted for single-family housing units, like a

[44] California's Secret Government
[45] Yaroslavsky, Zev. Interview by Abram Arredondo. Zoom. February 1, 2022.
[46] California State Auditor, "California's Housing Agencies" (Auditor of the State of California, November 2020), https://auditor.ca.gov/pdfs/reports/2020-108.pdf.

typical suburban ranch-style home with a front yard, backyard, and white picket fence. Approximately 75% of developable land in the state is zoned for single-family housing.[47] Many of California's largest cities, like Los Angeles and San Francisco, are maxed out in terms of land, and, further compounding the problem, overwhelmingly zoned for single-family units.[48] So, if policymakers and developers wish to construct more affordable housing units, they have to build up. If they do, however, they run into density limitations imposed by municipalities to build such units.

An adequate solution to the problem of lack of affordable housing in California would address streamlining of the permitting process, funding, and the need to upzone. To do one without the other two would not solve the problem. Each policy tool is necessary but, when applied alone, insufficient in addressing the problem. A comprehensive discussion of policies that would effectively address the affordable housing shortage in California would evaluate each of the three mentioned above, in a comprehensive and detailed manner. However, such an analysis is not within the scope of this report, which primarily addresses funding reforms that can provide policymakers and developers with revenue to invest in affordable housing.

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[47] Healy, Jon and Ballinger, Matthew. "What just happened with single-family zoning in California?" *The Los Angeles Times.* September 17, 2021. https://www.latimes.com/homeless-housing/story/2021-09-17/what-just-happened-with-single-family-zoning-in-california

[48] Menendian, Stephen, Gambhir, Samir, and Hsu, Chih-Wei. "Single-Family Zoning in Greater Los Angeles." *Othering & Belonging Institute, UC Berkeley*, March 2, 2022. https://belonging.berkeley.edu/single-family-zoning-greater-los-angeles

Methodology and Data

Method 1: Document Analysis and Literature Review of California Finance Reform Propositions

A document analysis and literature review was conducted to leverage primary and secondary source documents on the California housing policy landscape and public finance reforms to inform interview questions, economic modeling, and final policy recommendations. Documents range from ballot propositions to legislative bills to research reports, some enacted and some simply proposed. The key legislative and ballot initiative documents analyzed were Proposition 13 (1978), Proposition 15 (2020), and the California Documentary Transfer Tax Act (1968).

In the literature review, particular attention was paid to affordable housing in California, the role of municipal finance, and possible reform efforts. Several reform measures were identified in the literature that held some promise. Some of the literature pertained to other states, and were adapted to fit California's unique circumstances.

Proposition 13

Proposition 13 was a landmark ballot initiative passed in 1978 by a landslide margin, 64 to 35.[49] Spearheaded mainly by the anti-tax group the Howard Jarvis Taxpayers Association, as well as California homeowners who both feared property tax increases and mistrusted assessors offices following a series of scandals, Proposition 13 created the following major changes to the California Constitution.[50] As mentioned above Proposition 13 limited when a property was assessed and the rate at which it was taxed. Upon the transfer of properties, they are allowed to

[49] "California Proposition 13, Tax Limitations Initiative (June 1978)," Ballotpedia, accessed March 10, 2022, https://ballotpedia.org/California_Proposition_13,_Tax_Limitations_Initiative_(June_1978).
[50] Ibid; "The Block That Prop. 13 Built: Taxpayers Revolt." Accessed April 8, 2022. http://projects.scpr.org/prop-13/history.

be reassessed at 1% of their sales price and the limit on annual increases of assessed value is reset. The law prohibited the state legislature from enacting new taxes on the value or sale of properties and required a two-thirds vote of the state legislature to increase non-property taxes. Additionally, Proposition 13 requires local governments to refer special taxes to the ballot and requires a two-thirds vote for the tax to pass (this provision was recently weakened by a court ruling that allowed tax initiatives proposed by citizens to pass with a simple majority).[51] Proposition 13 also made the state government responsible for distributing property tax revenue among local governments.

Some of these provisions have been amended by subsequent ballot initiatives, but the bulk of Proposition 13's changes remain in place. The proposition makes it extremely difficult to pass statewide property tax reform, which was once the major source of funding for municipal governments. The official analysis included on the 1978 Voter Pamphlet by the Secretary of State noted that cities received 27% of their revenue and counties received 40% of their revenue from property taxes.[52] This number varies widely across the state but California cities now receive roughly 20% of their revenue from property taxes according to an analysis from the Legislative Analyst's Office.[53] Proposition 13 had a major impact on municipal budgets but it had a chilling effect on creative tax reform as well. The anti-tax provisions in the bill and the taxpayer revolt it started continue to shape California tax and finance policy.

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[51] Patrick Gleason, "It Just Became Easier To Raise Taxes In California," *Forbes*, October 11, 2020, https://www.forbes.com/sites/patrickgleason/2020/10/11/it-just-became-easier-to-raise-taxes-in-california/.
[52] March Fong Eu, "California Voter's Pamphlet" (California Secretary of State, 1978), https://repository.uchastings.edu/cgi/viewcontent.cgi?article=1845&context=ca_ballot_props.
[53] Carolyn Chu, "Four Factors Affecting Cities' Property Tax Revenues," California Legislative Analyst's Office, *California Economy & Taxes* (blog), January 13, 2016, https://lao.ca.gov/LAOEconTax/Article/Detail/163#:~:text=Statewide%2C%20cities'%20proportion%20of%20the.percent%20to%20over%2030%20percent.

Proposition 15

Proposition 15 was a failed ballot measure proposed during the 2020 General Election. The measure was defeated by a 52-48 margin. The intention of the policy was to reform Proposition 13 and introduce a split-roll taxation system in California. Proposition 15 would have taxed commercial and industrial properties, except for commercial agricultural properties, at market value. This new system would go into effect in fiscal year 2022-23 which would have given businesses about two years to adjust to the policy. The bill also had several measures designed to mitigate opposition from small businesses. Retail centers with 50% or more small businesses would have been taxed in this new system starting in the 2025-26 fiscal year. All business owners who had $3 million or less in property holding in California would have been exempted from being taxed at market value. The focus of the measure was not exclusively on affordable housing, as evidenced by the title of the measure, “The California Schools and Local Communities Funding Act of 2020.” However, references to affordable housing were included in the bill's language: “A reformed system, that assesses all properties based on their fair market value, would create a powerful new incentive to build new housing.”[54]

The California Documentary Transfer Tax Act

The California Documentary Transfer Tax Act was passed in 1968. It allows cities and counties to pass a tax on property sales exceeding $100. This bill is unusual in that it specifies the floor of the tax but it does not limit the ceiling. The policy states that county supervisors can pass a tax on the sale of property starting at 55 cents for every $500 of value. Cities may also

[54] “The California Schools and Local Communities Funding Act of 2020” (2020).

pass property transfer taxes which may start at half the value of the county tax. The bill also specifies that the issuer of the sale document, i.e., the seller, must pay the tax.[55]

Method 2: Case Studies

Affordable housing strategies and related funding mechanisms were examined at the state-level as well as those of the 13 largest cities by population in California.. The case study cities were examined to determine how the proposed policy options would affect their local property tax revenues.

Method 3: Qualitative Interviews with Public Finance and Housing Experts

From January 2022 to February 2022, the team conducted 12 interviews through Zoom, speaking to experts in the fields of housing finance and affordable housing development. The aim of the interviews was to understand best practices, policy failures, and develop a deeper working understanding of the complexities in financing affordable housing, especially in California. Throughout the interview process, we have maintained a balance of different stakeholders from the fields of academia, development, policy, and activism.

Method 4: Quantitative Analysis and Revenue Projections

Researchers quantified and analyzed the costs and benefits generated by the policy alternatives that demonstrate promise in increasing affordable housing stock. In addition to more clear cut costs and benefits, these analyses also incorporate, when appropriate, positive and

[55] "Documentary Transfer Tax Act," 11911 - 11913 § (1967), https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=RTC&division=2.&title=&part=6.7.&chapter=2.&article=.

negative externalities chosen policy alternatives may create independent of their effect on affordable housing stock.

Due to the municipal finance angle of our research question, projecting the revenue generated by the chosen policy alternative features prominently in quantitative analysis efforts. Researchers have leveraged comprehensive data sources and the expertise of Milken staff and UCLA faculty to ensure revenue projections are as thorough and accurate as possible given available resources. This has included conducting sensitivity analyses to account for variations in potential revenue as a result of decisions that affect components of potential policy alternatives. To identify the most suitable set of policy alternatives and recommendations, a criteria alternative matrix (CAM) was created. The CAM clarifies the relative and overall strengths and weaknesses among our policy alternatives according to a set of criteria and weights applied to each criterion. In selecting suitable decision criteria, the research team consulted Milken staff, Luskin faculty, and primary sources on criteria selection.

Policy Analysis and Findings

Criteria Explanation

Table 1 below displays the criteria alternative matrix used to rank each policy option according to specified criteria and weights. Each policy alternative was assessed on a scale of 1 to 5 with respect to the four evaluation criteria chosen: political feasibility, technical feasibility, revenue generation, and equity. A value of 1 represents an ineffective policy alternative, and a value of 5 represents an extremely effective policy option. Through evaluating the criteria of the policy options on a 1 to 5 scale, the table provides an analysis that is both ordinal and numerical in ranking the policy options. There are limitations to the approach of evaluation. A numerical evaluation with a wide numerical range, or a percent score, can provide a high level of detail and is sensitive to the slightest of considerations of the policy. In the case of this analysis, since some of the policies have only seen a limited introduction in California, there is a wide array of outcomes that can be generated when and if the policies are introduced locally, or at the statewide level that would affect the outcome variables we have used in our analysis. These adjustments would affect the total revenue generation, or provisions that can lead to unforeseen equity concerns in decades to come. In evaluating our policy alternative's criteria, we took into consideration the potential fluctuation of unknown variables to produce the scores and ranking of each policy alternative.

The political feasibility and revenue generation criteria were awarded slightly higher weighting due to the financial imperative of affordable housing development, as well as the success of the proposed policy options that hinge on voter support via ballot initiatives. The analyses demonstrate that no one alternative emerges as the clear, singular approach to municipal finance reform in the name of affordable housing development. Instead, each alternative possesses its own strengths and weaknesses that may be favorable depending on the political, demographic, and economic landscape policymakers find themselves in. The property transfer tax, for example, scores highest on political feasibility due to the enactment of transfer taxes on a local level despite Proposition 13's prohibition of such a measure at the state level. Proposition 13 reform scores high on the equity criterion due to the reparative effects of a weakened or reformed Proposition 13. Such effects would involve blunting the proportionally higher property tax savings enjoyed by wealthier, whiter Californians. The land value tax presents the greatest revenue generation potential due to the untapped financial reservoir of land value in major California cities.

		ALTERNATIVES					
Decision Model		Land Value Tax		Property Transfer Tax		Prop 13 Reform	
Criterion	**Weight**	**Rating**	**Score**	**Rating**	**Score**	**Rating**	**Score**
Political Feasibility	0.3	2.5	0.75	3	0.9	2.5	0.75
Technical Feasibility	0.2	3	0.6	3.5	0.7	3	0.6
Revenue Generation	0.3	5	1.5	4	1.2	4.5	1.35
Equity	0.2	4	0.8	4.5	0.9	5	1
Total	1	14.5	**3.65**	15	**3.7**	15	**3.7**

Table 1: Criteria Alternative Matrix

Criteria #1: Political Feasibility

We define the political feasibility of the three proposed reforms through the likelihood that such measures would be accepted, adopted, and implemented by the general public and elected officials. Since many similar measures in the past have been ratified through ballot referendums or initiatives, evaluation of the political feasibility largely focuses on the salience and support of the proposed reforms should they be enacted. When proposed, all three reforms measured; the land value tax, the progressive real estate transfer tax, have seen success in either municipalities within California, or similar jurisdictions to the 13 cities evaluated in the study.

Higher Interest and Lower Influence *Low or Middle Income Renters, Homeowners, Developers, Businessowners*	**Higher Interest and Higher Influence** *Landlords, Anti-Tax Groups (Howard Jarvis)*
Low Interest and Low Influence *Upper Income Renters*	**Lower Interest and Higher Influence** *State Policymakers, Municipal Policymakers*

Table 2: Key Stakeholders

The above diagram represents the key stakeholders impacted by municipal finance reform and the groups who are most likely to find these alternatives salient when and if these measures are proposed. The key stakeholders are divided between their varying level of influence and interest regarding municipal financial issues. Those most likely to support the alternatives would include low or middle income renters, some developers, some business owners, and certain local municipal or state policymakers. Most of these stakeholder groups wield a lower level of power than groups that would oppose measures to implement these alternatives, such as anti-tax lobbying groups, landlords, and local and state policymakers with vested interest to oppose such propositions. In order to advance these alternatives into an adopted policy framework, coalition building is essential, especially among groups that have a high level of interest, but historically low levels of power and influence in order to increase the chances that such propositions would become adopted.

Criteria #2: Revenue Generation

Each of the policy reforms identified are judged, in part, by their ability to generate revenue for California state and local governments to invest in affordable housing construction.

Revenue generation factors highly into the analysis due to the magnitude of the funding shortage to address the affordable housing need, largely attributable to Proposition 13 (Figure 1). As the scale of the affordable housing deficiency in California is vast, reforms with potential to generate substantial revenues are assessed more favorably over other policies. As stated earlier, California must construct over 100,000 affordable housing units annually through 2029 to meet demand. The state government only managed to support the development of an average of 19,000 affordable housing units annually from 2015 through 2019.[56] If these numbers were to hold over time, California's gap in funding affordable housing would hover around 100,000 units per year. According to the state auditor report, four agencies, California Housing and Community Development, California Housing Finance Agency, California Tax Credit Allocation Committee, and California Debt Limit Allocation Committee, appropriated approximately $6.87 billion to finance affordable multi-family housing projects, either in the form of federal and state tax credits, grants, loans, and bond allocations in 2018-19.[57] Additionally, Governor Newsom signed legislation in 2021 that directs $22 billion to housing and homelessness investment.[58] The administration believes the funding will lead to the construction of 84,000 housing units. In 2022, the California Department of Housing and Community Development reported that the state has, since July 2018, awarded over $8 billion to support the development of affordable housing.[59] Despite the investments, the gap remains profound, due in no small part to soaring housing construction costs. The costs further underscore the need for more revenue.

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[56] California's Housing Agencies, 17
[57] Ibid, 10-11
[58] Office of Governor Gavin Newsom, "Press Release: Governor Newsom Signs Legislation to Increase Affordable Housing Supply and Strengthen Accountability, Highlights Comprehensive Strategy to Tackle Housing Crisis - California Governor's Office," September 28, 2021, https://www.gov.ca.gov/2021/09/28/governor-newsom-signs-legislation-to-increase-affordable-housing-supply-and-strengthen-accountability-highlights-comprehensive-strategy-to-tackle-housing-crisis/
[59] March 2022, "A Home for Every Californian."

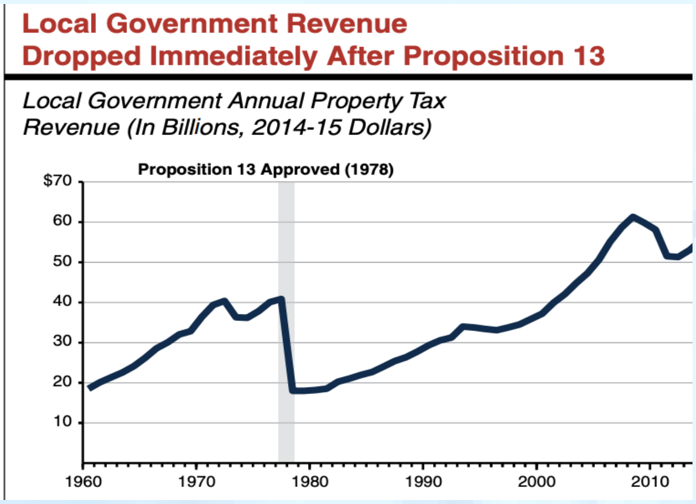

Figure 1.[60] *Proposition 13 Dramatically Reduced Local Tax Revenue*

A U.C. Berkeley Study from the Terner Center for Housing innovation finds that the cost to build a single unit in a 100-unit affordable housing project in the state went from $265,000 in 2000 to nearly $425,000 in 2016.[61] The study noted that this is attributable to increases in land pricing and construction costs. Regulation was also found to inflate costs, with affordable housing projects subject to extensive governmental oversight.

We can use the 2016 figures above to come up with a rough estimate to determine how much money would be needed to build at least 125,000 affordable housing units in California. If one unit costs $425,000, a 100-unit affordable housing project would cost $42,500,000. About 1,250 100-unit housing projects would need to be built to reach the 125,000 housing unit goal per year, at a total cost of about $53,125,000,000 *annually*. As these numbers show, California is in dire need of identifying revenue measure streams that can chip away at this massive figure.

[60] "Common Claims About Proposition 13." Accessed April 1, 2022. https://lao.ca.gov/publications/report/3497.

[61] Terner Center. *The Cost of Building Housing Series.* Berkeley: Terner Center, 2020. Accessed February 10, 2022. https://ternercenter.berkeley.edu/research-and-policy/the-cost-of-building-housing-series/#:~:text=Affordable%20Housing%20Costs%3A%20The%20cost,and%20regulation)%20impact%20affordable%20housing

Revenue generation is vitally important, but the source of that revenue is also important. Given the constraints on revenue generation imposed through Proposition 13, we realize that municipalities have limited means available to them to support or incentivize affordable housing construction. The ability of a financing scheme to generate ongoing, dependable revenue as opposed to one-off sources, is also examined.

Criteria #3: Technical Feasibility

Any fiscal policy reform recommended for adoption needs to be technically and legally feasible. That is, the California Constitution, state law, or municipal ordinance, should all allow for the implementation of the measure. Any possible reform, however advantageous it is from a revenue generation or equity standpoint, is not worth much consideration if it cannot be realized due to conflicts with the law. Having said that, we know that any measure that conflicts with Proposition 13 is at once a non-starter, *unless* it manages to adjust that proposition in some way.

Therefore, we are cognizant of the limitations imposed on us in considering revenue generation policies but do acknowledge that those limitations can also be revisited to consider the potential of workarounds to the existing tax schema in California. In considering a land value tax as a possible revenue generating scheme, for example, the APP team assesses its legal feasibility through the lens of Proposition 13.

California cities are also given unique powers to raise revenue through the passage of ordinances to place revenue measures on the ballot. That gives the cities the ability to raise revenue, such as with increased property transfer taxes, as discussed below.[62]

[62] Institute for Local Government. Understanding the Basics of Municipal Revenues in California: Cities, Counties, and Special Districts. Sacramento: Institute for Local Government, 2016, Accessed March 10, 2022.https://www.ca-ilg.org/sites/main/files/file-attachments/basics_of_municipal_revenue_2016.pdf

Lastly, any policy must be able to be implemented by the relevant bureaucratic authorities, for our purposes, a county tax assessor ought to be able to determine property values and assess the appropriate taxes to be paid.

Criteria #4: Equity

Equity is a major component of our evaluation criteria. Racially discriminatory housing policy has a long history in the United States and California. Redlining and exclusionary covenants prevented many families of color from building wealth.[63] It reinforced a cycle of generational poverty which exists to this day. Discriminatory housing policy has also led to a concentration of low-income residents in urban cores, which combined with white flight in the mid-20th century, deprived majority-minority communities of tax dollars for schools and other services. All of the policy alternatives must be judged by an equity criteria to ensure that similar patterns of racial and economic inequality are not repeated.

Our equity criteria exists to ensure that the policy alternatives fairly distribute both the costs and benefits of the alternative among low-income and historically disadvantaged communities. Where equity data was difficult to find we analyzed the policies from an equity standpoint qualitatively using existing literature on the subject. If the new tax policies generated by the alternatives are progressive and distribute the tax burden to those who can most afford it, the alternative scores high on equity. Similarly if an alternative proposes the elimination of a tax that is regressive it scores high on equity.

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[63] Alexis C. Madrigal, “The Racist Housing Policy That Made Your Neighborhood,” *The Atlantic*, May 22, 2014, https://www.theatlantic.com/business/archive/2014/05/the-racist-housing-policy-that-made-your-neighborhood/371439/.

Alternative 1: Land Value Tax

Explanation

The land value tax (LVT) offers one potential vehicle for municipal finance reform to boost investment in affordable housing construction. An LVT imposes either taxes solely on land itself or *higher taxes on the value of land itself and lower taxes on land improvement values*. Whereas conventional property tax models levy taxes on both land and building improvements in even measure. An LVT seeks to either remove or mitigate many of the negative outcomes that conventional property tax structures foster. For example, current property taxes incentivize property owners to avoid improvements or additions to their properties, which often result in greater taxation due to increased overall property values. Conversely, existing schemes punish developers via taxation who invest the time and money to make their properties more livable. As a result, some landowners avoid improving their buildings, allowing them to fall into disrepair while local citizens' property values decrease and rental homes deteriorate. Along with fostering dilapidation, conventional tax policies incentivize land speculation, as owners of prime sites experience minimal taxation while biding their time to capitalize on land values. Further, land use with less *actual use* (i.e., parking lots), and urban sprawl (and its accompanying negative externalities) proliferate as landowners build on property outside city centers where construction and land costs are cheaper. Finally, current tax structures minimize the portion of land value that gets returned to the government, as most property taxes sit between 1% to 2% of assessed value. Other than this 1% to 2% tax, most of the additional value created by government-funded infrastructure goes to landowners via rent increases rather than to the majority of citizens who live, work, and recreate in these buildings or the government that created these improvements. In fact, those who are fortunate enough to live in an infrastructure-rich environment end up paying for that infrastructure twice: first through taxes, and again through rent premiums to live near infrastructure their taxes have already subsidized.[64]

By reducing the tax burden on privately-created building values and increasing the tax burden on the publicly-created land values, the LVT fosters many benefits. Land taxes provide an incredibly stable source of income, as one cannot exactly move land to more tax-friendly regions. LVTs also minimize the perverse incentives to leave properties in disrepair and build in areas with lower taxes. A higher tax incidence on land itself rather than improvements also disincentivizes land speculation by placing a higher cost on undeveloped land, especially in dense urban cores. Additionally, the LVT decreases overall property values, due to both the drop in demand for land as its tax burden increases and the increased supply of land for housing development by reversing the artificial land scarcity created via speculation.[65] The LVT also has income equity merit, as property owners pay taxes in proportion to infrastructure benefits they receive which increase the overall value of their land parcels. An LVT returns and recycles the value of the land back to the government and the citizens rather than to developers who unfairly benefit from public-sector infrastructure creation.[66] Earmarking revenue raised through an LVT for affordable housing development would further bolster the benefits created, however.

Pittsburgh, Pennsylvania exemplifies a city that has reaped the benefits of an LVT. In 1913, Pittsburgh enacted a split-rate tax where taxation rates steadily increased to a point where land was taxed at double the rate of buildings.[67] During the real estate speculation boom of the 1920s (and its subsequent bust due to the Great Depression), Pittsburgh's LVT prevented land speculation from being profitable due to increased taxes on raw land relative to land

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[64] "The Power of the Land Value Tax." Accessed January 27, 2022. https://www.strongtowns.org/journal/2020/1/16/the-power-of-the-land-value-tax.
[65] Ibid
[66] Ibid
[67] The Pittsburgh Experience | Land Value Tax Guide

improvements.[68] The city avoided the property value boom-and-bust cycle associated with aggressive land speculation, resulting in a less severe economic downturn during the Great Depression along with a more stable tax revenue base with which to support Pittsburghers with social services.[69] The LVT also played a pivotal role in revitalizing the city's downtown area since it decreased land prices in the city's downtown amidst the mid-century collapse of the steel industry. As many factories became vacant, landowners were keen to attract businesses because property value reductions did less to decrease their tax burden as in cities without an LVT. Faced with both a need to capitalize on vacant land parcels and cheaper land prices as a result of the economic downturn, Pittsburgh's LVT provided the underlying conditions for the construction and business investment that proliferated throughout its downtown. This revitalization is known locally as "Renaissance II" and enabled a deft transition into a service economy compared to the efforts of other Rust Belt cities.[70] In addition, the aggregation of business in downtown and low rents also encouraged urban development in the city center, preventing urban sprawl and allowing citizens to take better advantage of existing infrastructure their tax dollars had already paid for while also enjoying a robust economy.[71]

Political Feasibility

A land value tax faces significant hurdles in California, the most obvious of which is Proposition 13. The law represents legal and technical challenges to the passage of a land value tax. Proposition 13 is representative of the distinct anti-tax culture in California. The law required a two-thirds majority of the legislature to pass new taxes. Proposition 218, enacted in

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[68] Rick Rybeck, *The Power of the Land Value Tax with Rick Rybeck (11-19-19)*, Strong Towns, 2019, https://www.youtube.com/watch?v=vC7hDmoZRCk.
[69] ibid
[70] Popular Pittsburgh. "A Pair of Renaissances Shape Pittsburgh's Cityscape," February 11, 2015. https://popularpittsburgh.com/pairofrenaissances/.
[71] Rybeck, *The Power of the Land Value Tax with Rick Rybeck (11-19-19)*.

the 1990s, required increases in local special taxes to be approved by a two-thirds vote of the people.[72] Even though the California State Supreme Court recently allowed certain tax initiatives to pass without the high bar of a two-thirds majority, the fact remains that a new sweeping tax like the land value tax would require a major political effort.[73]

The highly influential Howard Jarvis Taxpayers Association would almost certainly come out in opposition to a land value tax initiative. A small example of this reaction was observed during the campaign to pass Proposition 15, a Proposition 13 reform measure.

Proposition 15 would have created a split-roll system, where commercial and industrial properties were separated from residential properties and taxed differently. The measure would have removed the benefit older businesses receive from owning the same property for generations by assessing and taxing these properties at market rate.[74] As it mostly affected wealthy land-owners, Proposition 15 would have made relatively minor changes to the property tax system. Despite that, the campaign to pass or reject it was expensive, symbolizing its politically fraught nature. Both sides spent a combined $139 million with business backed groups spending $72 million in opposition to the measure.[75]

However, an LVT policy is not completely doomed to political failure. As we discuss in the revenue generation portion for this alternative and as is shown in the tables below, replacing the property tax with a land value tax may bring the total tax burden on certain homeowners down. Our research indicates that this is most often the case in Los Angeles and Long Beach

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[72] Gleason, "It Just Became Easier To Raise Taxes In California."
[73] Rutan & Tucker LLP, "California Court of Appeal Again Rules That Supermajority Not Needed to Pass Voter Initiative Special Tax Measures," *News & Insights* (blog), December 23, 2020, https://www.rutan.com/california-court-of-appeal-again-rules-that-supermajority-not-needed-to-pass-voter-initiative-special-tax-measures/.
[74] California Proposition 15, Tax on Commercial and Industrial Properties for Education and Local Government Funding Initiative (2020)
[75] Myers, John., "California Voters Reject Big Changes to Landmark Property Tax Measure Prop. 13," *Los Angeles Times*, November 11, 2020, https://www.latimes.com/california/story/2020-11-10/proposition-15-commercial-property-tax-defeated.

which have high land value to improvement value ratios. Table 4 provides the example of three properties in Southern California to illustrate how an LVT could lead to lower property taxes for homeowners. In essence, those with property whose value stems more from improvements rather than land value. An LVT may also serve to revitalize businesses and stabilize the tax base like it did in some Pennsylvania cities.[76] This may prove to be a powerful tool for supporters to defend an LVT measure against attacks from anti-tax advocates. However, older homeowners and homeowners whose property derives most of its value from the land would still likely oppose an LVT. For these reasons we give the land value tax a score of 2.5 for political feasibility.

City	Mean Land Value Per Acre	Median Land Value Per Acre	Median Land Value Percent (as part of total property value)
Los Angeles	$10,900,000	$8,543,911	62.72%
Long Beach	$9,356,882	$8,474,708	61.39%
San Francisco	$6,228,491	$3,229,859	50.00%
San José	$3,032,440	$1,894,775	49.99%
Oakland	$1,281,722	$898,614	30%

Table 3. Comparison of Land Value to Improvement Value in CA Cities

[76] Joshua Vincent, "Non-Glamorous Gains: The Pennsylvania Land Tax Experiment," Strong Towns, March 6, 2019, https://www.strongtowns.org/journal/2019/3/6/non-glamorous-gains-the-pennsylvania-land-tax-experimen.

	House #1	House #2	House #3
City	Los Angeles	Baldwin Park	El Segundo
Current General Tax Levy	1%	1%	1%
Current Property Value	$179,193	$314,384	$1,650,000
Current Land Value	$38,080.00	$153,694.00	$1,320,000
Current Improvement Value	$141,113.00	$160,690.00	$330,000
Current Property Tax Payment	$1,791.93	$3,143.84	$16,500
Proposed LVT	1.86%	1.86%	1.86%
Prospective LVT Payment	$708.29	$2,858.71	$24,552.00
Net Change	-$1,083.64	-$285.13	$8,052.00

Table 4. Sample Household Comparison of Tax Payments

Technical Feasibility

Under California law, a land value tax is not currently legal as real property is defined to include, among other things, land and improvements to that land, like structures.[77] The law would need to be changed to remove improvements as subject to real property taxation. A ballot initiative would need to pass to amend Proposition 13 to allow for increased taxation rates of land and to reassess land values at regular intervals.

County assessors would need to adjust their approach to assessing property values and no longer account for improvements to a parcel. Land value reflects the public amenities and services available near a parcel and the natural resources that can be found at the site.[78] Thus, a tax assessor would value land in closer proximity to such features higher than land farther away.[79] So, adjusting to a land value tax does not seem exceedingly difficult or onerous, and, in some respects, may be easier than the current system. However, if land values were to be

[77] California Board of Equalization, *California Property Tax: An Overview*, (Sacramento: California State Government, 2018), 1, https://www.boe.ca.gov/proptaxes/pdf/pub29.pdf
[78] U.S. Department of Transportation Federal Highway Administration. "Value Capture." Accessed April 12, 2022. https://www.fhwa.dot.gov/ipd/value_capture/defined/faq_land_value_tax.aspx
[79] Value Capture

assessed at more regular intervals than at the point of sale or after renovations, this reform may necessitate more staff, or at the very least, more staff time, to complete the work.

There are legal mechanisms available to address the barriers to creating a land value tax in California and the bureaucratic tools to assess land values already exist. However, in a state as large as California, it can be difficult to gather enough signatures to actually place a measure on the ballot. For instance, to place a measure on the ballot to revise the state constitution would require collecting signatures equivalent to 8% of the total votes cast in the last gubernatorial election. This translates to 997,139 signatures as of 2022.[80] The technical feasibility of this alternative is rated as 3.

Revenue Generation

Revenue generation potential for the land value tax was calculated using datasets obtained from county assessors' offices and from the real estate website www.redfin.com. Only five of 13 case study cities - Long Beach, Los Angeles, Oakland, San José, and San Francisco - utilize assessors' data due to financial and logistical limitations of obtaining such data for all 13 cities. Long Beach and Los Angeles data comes from the 2019 Los Angeles County Assessor's sales list. San Francisco, San José, and Oakland data comes from the Association of Bay Area Governments via Parcel Atlas, a national aggregator of assessor's data. Current Redfin listings for empty land plots were scraped in order to generate a figure for median price per square foot from highest to lowest (Table 5) for the eight case study cities for which assessors' data was unavailable. Redfin data limits accurate assessment of land value for several reasons. First, parcel data sample sizes were small, ranging from 91 (Bakersfield) to six (Santa Ana). This

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[80] California Secretary of State, *Statewide Initiative Guide*, (Sacramento: California State Government, 2018), 8, https://elections.cdn.sos.ca.gov/ballot-measures/pdf/statewide-initiative-guide.pdf

provides a limited view of the true range of land value within each city. Additionally, Redfin parcels may be biased towards lower values as those that remain listed may be less valuable as compared to purchased parcels due to poor location, infrastructure, or other reasons. Furthermore, it is possible that Redfin underestimates the value of its land plots to make them more appealing to prospective buyers. Thus, assessors' data provides more accurate assessments of land value.

Additionally, there are potential shortcomings from assessors data as well. Assessors' data reveals a large disparity in dollar per acre values between cities in Los Angeles County and cities in other counties. This finding may stem from several factors. For instance, as Los Angeles County Assessor's sales list data describes properties that sold in the 2019 fiscal year, this data may be biased towards more desirable, and therefore valuable, parcels compared to those in the Association of Bay Area Governments data that contains parcel data independent of sale date. Additionally, sample size differences may affect results, as data from San Francisco features almost 190,000 observations compared to 90,000 for Los Angeles. Data may obscure omitted variables that create greater land values for Los Angeles County cities such as greater quantities of land close to the beach, a more temperate climate, and variation in infrastructure development. Figures for median value per acre for each city with assessor data, however, did not substantially change when weighted based on acreage, suggesting that larger parcels have little potential to bias calculations. Finally, there are inconsistencies among cities regarding the year of data collection. While Oakland and San José data reflect land values as of February 2019, San Francisco data reflect values as of July 2017 while Los Angeles and Long Beach data reflect land value across the 2018-19 fiscal year.

City	Median Value Per Acre	Source
Los Angeles	$8,543,911.00	Assessor
Long Beach	$8,474,708.00	Assessor
Santa Ana	$3,424,527.22	Redfin
San Francisco	$3,229,859.00	Assessor
San Diego	$2,446,486.18	Redfin
San José	$1,894,775.00	Assessor
Anaheim	$1,000,000.00	Redfin
Oakland	$898,614.00	Assessor
Stockton	$505,696.20	Redfin
Fresno	$449,342.11	Redfin
Sacramento	$417,721.52	Redfin
Riverside	$336,071.93	Redfin
Bakersfield	$250,009.57	Redfin

Table 5. Land Value and Data Sources

Using these figures, researchers calculated annual land value tax revenue projections using the following formula.

$$LVT\ Revenue\ =\ (median\ dollar/acre)\ x\ (total\ city\ acreage)\ x\ (tax\ rate)$$

Table 6 illustrates the projections for annual revenue generation for a pure LVT at four rates. In short, our projections assert that an LVT has substantial potential for revenue generation. The lowest rate, 1.86%, represents the LVT rate that, if implemented for only the 13 case study cities, would raise revenue equivalent to that of California's 2019 property tax receipts ($72.7 billion according to the U.S. Census Bureau Annual Survey of State and Local Government Finances).[81] An assessment of 4.5% represents the average value of land tax rates for the 16

[81] U.S. Census Bureau Annual Survey of State and Local Government Finances, 1977-2019 (compiled by the Urban Institute via State and Local Finance Data: Exploring the Census of Governments; accessed 14-Feb-2022 12:05), https://state-local-finance-data.taxpolicycenter.org.

Pennsylvania cities that currently impose separate land and improvement taxes, with the remaining two rates representing 1% above and below that average.[82] As these are projections for a "pure" LVT, they may underestimate revenue potential by omitting value from taxes on improvements.

Total Annual Revenue Projections	
Tax Rate	**Revenue**
1.86%	$72,712,227,296
3.5%	$136,501,177,610
4.5%	$175,501,514,070
5.5%	$214,501,850,530

Table 6. Land Value Tax Revenue Projections

The nature of the land value tax also merits consideration in the wake of these figures. Unlike the property transfer tax, a pure LVT will *replace,* not supplement, existing property tax values. In practice, a 100% land value tax is virtually unheard of. This approach was modeled primarily due to research feasibility concerns regarding a more complicated revenue generation model and should be a subject of further analyses. Jurisdictions that do implement a version of LVT most often utilize a split-rate tax where both land and improvements are taxed according to specific ratios. Allentown, Pennsylvania, for example, taxes land and improvements at rates of 5.038% and 1.072% respectively.[83] Thus, this alternative must stand up against the opportunity cost associated with forgoing traditional property taxes which levy assessments based on land value and improvements. While this comparison is not quite one-to-one, our analyses

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[82] Mark Alan Hughes, "Why So Little Georgism in America?" (Lincoln Institute for Land Policy, July 2006), https://www.lincolninst.edu/publications/working-papers/why-so-little-georgism-america.
[83] Vincent, "Non-Glamorous Gains."

demonstrate that an LVT at levels comparable to those implemented elsewhere has the potential to exceed the annual revenue provided by a traditional property tax.

However, the LVT also has many difficult-to-quantify co-benefits whose total value may offset the lost revenue while also facilitating affordable housing development on their own. Further research can target whether the monetary value of these benefits and others outweigh potential traditional revenue losses resulting from LVT implementation. Ultimately, we award the LVT a maximum score of 5 for revenue generation for its potential to raise revenue figures well above that of a traditional property tax. While an LVT provides several other financial co-benefits, these were not ultimately factored into our score due to the difficulty in quantifying them.

Equity

A land value tax could facilitate improved equitable outcomes. The most important of these benefits is the LVT's ability to disincentivize land speculation and under-development of desirable land parcels in order to avoid paying taxes on building improvements. As a result, LVTs generate both a greater quantity of sites for affordable housing development as well as savings in rent for residents as the benefits of land ownership decrease with LVT implementation.[84] This greatly benefits groups that are traditionally disenfranchised. Additionally, LVTs often lead to tax decreases for most residential parcels, as absentee owners of vacant lots must shoulder a higher percentage of the tax burden.[85] A recent publication by the

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[84] Rick Rybeck, "If the Land Tax Is Such A Good Idea, Why Isn't It Being Implemented?," *Strong Towns*, March 8, 2019, https://www.strongtowns.org/journal/2019/3/8/if-the-land-tax-is-such-a-good-idea-why-isnt-it-being-implemented.

[85] Vincent, "Non-Glamorous Gains."

University of Arizona Eller School of Management demonstrates that an LVT initiative in place of a Proposition 13 mandate would result in a 32% increase in housing production.[86]

Additionally, property owners would pay taxes in proportion to the infrastructure benefits that they receive rather than benefiting from higher rents that they charge to renters in order to be in close proximity to publicly constructed infrastructure. Current provisions under California property taxing schemes can lead to tax increases if an owner improves their property. This policy has disincentivized owners from investing in their own property while simultaneously increasing rents on already burdened renters. Initiation of an LVT would create many of the much needed improvements in already existing infrastructure, and lead to more satisfactory conditions for California's rent-burdened community. The LVT is awarded an equity score of 4.

Alternative 2: Property Transfer Tax

Explanation

A reassessment of property transfer tax rates in California can also serve as an impactful municipal finance reform and raise additional revenue that can be redistributed to affordable housing. Most municipalities in California stick to the baseline tax allowed by state law which means they levy a roughly 0.1% of a property's sale price, regardless of its true value. The statewide median price for a home in California in 2021 was $827,940. Thus, the sale of a home at this price would trigger a transfer tax of $827.94. Real estate transfer tax rates in California are set quite low in comparison to other states, and considering the high value of many California properties, this represents a missed opportunity to generate substantial revenue for the state and for affordable housing.

[86] Fisher, Paul. "The Role of Property Tax in California's Housing Crisis". 25 January, 2022 University of Arizona Eller School of Management.

California cities should follow the example of Culver City and several municipalities in the Bay Area who have increased their property transfer taxes. Creating more progressive real estate transfer tax rate measures in more cities and earmarking a portion of the funds for affordable housing can be a more effective and equitable revenue source than sales taxes or impact fees on developers. Raising the flat property transfer tax from the current low rate of $0.55 per every $500 in property value would be a step in the right direction in raising revenue for affordable housing as well, but a progressive property transfer tax rate is the ideal policy alternative. The following table outlines possible revenue generation in Los Angeles associated with a more progressive property transfer tax rate.

Portion of property sale price subject to tax rate	Limited	Moderate	Optimal
Less than $500,000	0.65%	1.0%	1.25%
$500,000 to $999,999	1.0%	1.25%	1.5%
$1 million to $1,999,999	1.25%	1.75%	2.0%
$2 million to $4,999,999	1.5%	2.5%	3.0%
$5 million to $24,999,999	2.5%	3.25%	4.0%
$25 million and above	3.0%	4.0%	5.0%
Revenue from residential sales	$383 million	$544 million	$659 million
Revenue from commercial sales	$182 million	$248 million	$306 million
Total annual revenue	$565 million	$792 million	$965 million
Revenue without exemption on new development	$593 million	$828 million	$1,010 million

Table 7. Property Transfer Tax Revenue Projections [87]

Propositions that raise the real estate transfer tax have been successful in recent years, including several that incorporate a progressive tax rate. The following table illustrates support for increased property transfer tax measures within several Bay Area municipalities.[88]

[87] Shane Phillips, "A Call For Real Estate Transfer Tax Reform," July 22, 2020, 12, https://escholarship.org/uc/item/6wv6k272.
[88] Ibid, 17

Year	City	Ballot initiative	Percent support
2014	Emeryville	Measure V	59.5%
2016	San Francisco	Proposition W	61.9%
2018	Oakland	Measure X	69.5%
2018	Berkeley	Measure P	72.4%

Table 8. Cities that Increased their Property Transfer Tax[89]

Political Feasibility

An increased property transfer tax is the most politically feasible option out of the three alternatives. Several California cities have already passed some form of the policy and the California Documentary Transfer Tax Act has been on the books since 1968. The policy can be structured in a progressive way to avoid burdening the majority of middle class home sales but still capture high value residential property sales and commercial sales. A proposed measure in the City of Los Angeles would raise the transfer tax to 4% on sales of property worth more than $5 million and 5.5% on sales above $10 million. An analysis by supporters of the measure determined that the policy would have applied to only 3% of all property sales in the city from March 2019 to March 2020.[90] The measure can garner support from the public particularly if it directs funds towards affordable housing and homelessness prevention. A *Los Angeles Times* poll of Los Angeles County voters found that 51% of voters supported a tax increase to "create permanent initiatives to help homeless individuals and reduce the homeless population" with support rising to 63% if an accountability structure was put into place.[91]

Several California cities have passed either progressive property transfer taxes, like Oakland, San Francisco, and Culver City, or have simply increased their property tax from the

[89] Ibid, 16
[90] Benjamin Oreskes, "Tax Proposed on L.A. Property Sales over $5 Million to Fund Homeless Housing," *Los Angeles Times*, December 15, 2021, https://www.latimes.com/homeless-housing/story/2021-12-15/housing-groups-want-to-raise-tax-to-address-homelessness.
[91] Ibid

state minimum like Emeryville. The example of these cities proves the viability of the measure. San Francisco even recently passed an increase of its property transfer tax.[92]

Our team created a model to determine which of our 13 case study cities most closely resemble cities which have increased their property transfer tax rates. We chose Culver City and Emeryville as our two sample cities because they represent two types of property transfer taxes, progressive and flat, they are not included in the case study cities, and they are located in Southern California and Northern California. Culver City recently passed a progressive property transfer tax while Emeryville simply raised its tax to $12.00 per $1,000 of property value. The model uses a Mahalanobis distance calculation to determine the distance or MD between the chosen variables of our sample cities and the case study cities. The lower the MD, the less standard deviations away from the sample cities it is. In other words, the lower the MD, the greater the similarity between the two cities. This limits the analysis to a relative measure.

Thirteen demographic variables were chosen including median income, ethnic breakdown, and political affiliation. Appendix A contains a full list of the variables used in the calculations. The limitations of the model are obvious. Our model excludes population size because it produced too much variation in the model. The model is also limited to two sample cities and the 13 case study cities. A more comprehensive analysis would include an average of all cities with an increased property transfer tax and statewide data from all cities. However, despite the limitations of the model it can still provide some insight into the feasibility of the property transfer tax alternative. Tables 9 and 10 show the similarities of each case study city to Emeryville and Culver City, respectively. The success of the model is demonstrated by the

[92] "San Francisco, California, Proposition I, Real Estate Transfer Tax (November 2020)," Ballotpedia, accessed March 11, 2022, https://ballotpedia.org/San_Francisco,_California,_Proposition_I,_Real_Estate_Transfer_Tax_(November_2020).

closeness of the two sample cities to each other indicating that there is some explanatory power to the variables used in the model. Some results were expected, cities like San Francisco and Oakland which already have progressive property transfer taxes are similar to Culver City, but some results were surprising, such as the relative distances from Los Angeles and Fresno to Culver City. The model indicates that Fresno is more similar to Culver City than Los Angeles. These surprising findings give hope to the idea of an increased property transfer tax particularly in those cities with scores closest to Culver City and Emeryville. For these reasons, the property transfer tax political feasibility score is 3.

City Name	Similarity Score to Emeryville
Emeryville, CA	0
Culver City, CA	5.23
Long Beach, CA	5.27
Los Angeles, CA	5.29
Sacramento, CA	5.29
San Francisco, CA	5.29
Oakland, CA	5.3
Stockton, CA	5.34
Fresno, CA	5.37
Santa Ana, CA	5.37
Anaheim, CA	5.39
San José, CA	5.4
San Diego, CA	5.46
Riverside, CA	5.85
Bakersfield, CA	6.15

Table 9. Emeryville Similarity Scores

City Name	Similarity Score to Culver City
Culver City, CA	0
Emeryville, CA	5.23
Oakland, CA	5.24
San Francisco, CA	5.26
Long Beach, CA	5.27
Fresno, CA	5.3
Los Angeles, CA	5.32
Santa Ana, CA	5.32
San José, CA	5.32
Sacramento, CA	5.34
Riverside, CA	5.38
Stockton, CA	5.41
San Diego, CA	5.44
Anaheim, CA	5.5
Bakersfield, CA	5.87

Table 10. Culver City Similarity Scores

Technical Feasibility

The California Revenue and Taxation Code authorizes cities and counties to establish a property transfer tax rate of $1.10 per $1,000 of property value.[93] As such, there are no legal impediments to the imposition of a property transfer tax. Various state court cases have also given charter cities, which operate with somewhat more autonomy under California law as opposed to general law cities,[94][95] the leeway to impose higher property transfer tax rates, such as $30 per $1,000 of the property value.[96]

Councilman Alex Fisch, who was the driving force behind Culver City's transfer tax initiative in 2020, has asserted that general law cities are constrained by Government Code section 53725, while charter cities are limited only by the procedural requirements of Proposition

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[93] State of California. "California Legislative Information Code Section." Accessed March 10, 2022. https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=RTC&sectionNum=11911.

[94] "Foundational Aspects of Charter Cities"

[95] University of California, Berkeley, School of Law. "General Law City vs. Charter City." Accessed April 8, 2022. https://www.law.berkeley.edu/files/Albuquerque4_-_General_Law_City_v_Charter_City.pdf

[96] GreenbergTraurig. "California Documentary Transfer Tax Litigation Update." Accessed March 10, 2022. https://www.gtlaw.com/en/insights/2018/4/california-documentary-transfer-tax-litigation-update

13 and 218 (e.g., requiring a public vote) in setting transfer tax policies.[97] This stems from the fact that charter laws get their authority over "municipal affairs" from Article XI, section 5 of the California constitution.[98] In speaking with policymakers in charter cities, Fisch found that many independently concluded that they could not increase their real estate transfer taxes without becoming a charter city.[99]

Each one of the 13 case study cities operate under a charter, although not all have raised their property transfer taxes.[100] California cities and counties therefore have the legal ability to set their property transfer tax rates higher than where many are currently set, provided they pass a measure to switch to charter law status. As a general tax, the California Constitution permits cities to raise the property transfer tax by a simple majority of voters.[101] For instance, Measure RE, the ballot initiative that enabled Culver City (a charter law city as of 2006)[102] to increase its property transfer tax rate, was approved by 52% of voters in the November 2020 election.[103] The City of Emeryville undertook a two-step procedure to levy a property transfer tax of $12.00 per $1,000 of value in 2014.[104] Voters first had to pass a measure to switch to charter law status and then approve the actual tax.[105] We do not consider it technically more difficult for a county assessor to collect a higher rate of tax.

[97] Fisch, Alex. 'Property Transfer Tax Technical Feasibility Question'. Email, 2022.
[98] Ibid
[99] Ibid
[100] California City Finance. "California City Documentary and Property Transfer Tax Rates." Accessed April 9, 2022. http://www.californiacityfinance.com/PropTransfTaxRates.pdf
[101] Ballotpedia. "Laws governing local ballot measures in California." Accessed March 10, 2022. https://ballotpedia.org/Laws_governing_local_ballot_measures_in_California
[102] American Legal Publishing. "Charter of the City of Culver City California." Accessed April 8, 2022. https://codelibrary.amlegal.com/codes/culvercity/latest/culvercity_ca/0-0-0-33558
[103] Ballotpedia. "Culver City, California, Measure RE, Property Transfer Tax (November 2020)." Accessed March 10, 2022. https://ballotpedia.org/Culver_City,_California,_Measure_RE,_Property_Transfer_Tax_(November_2020)
[104] Alameda County. "City of Emeryville Real Property Transfer Tax Ordinance." Accessed April 1, 2022. http://acgov.org/auditor/clerk/emerynote-content.htm
[105] Ballotpedia. "City of Emeryville Real Property Transfer Tax, Measure V." Accessed April 1, 2022. https://ballotpedia.org/City_of_Emeryville_Real_Property_Transfer_Tax,_Measure_V_(November_2014)

Given that, we rate this alternative moderately high in terms of technical feasibility, at 3.5. There are some technical and legal barriers to raising property transfer tax rates in California, at least at the municipal level. They could be overcome by switching to charter law status. However, any statewide reform to hike property transfer taxes will have to contend with language in Proposition 13 barring the imposition of new transaction taxes on the sale of real property.[106]

Revenue Generation

Property transfer taxes are a unique mechanism to raise revenue through taxing accrued wealth on property. In 1970, the median sales price on a home in California was $24,300, $176,079 when adjusted for inflation to 2022. Today, it is not uncommon for these homes to surpass values over $1 million. In the 13 case study cities evaluated, current property transfer taxations at the average state range (0.11%) have generated roughly $277 million from the sale of property.

Our proposed tax rate, modeled from previously passed initiatives in major metropolitan locales and academic experts, will raise between $5 and $8.5 billion dollars,[107] depending on the institution of a low, medium, or high tax rate. Taxes implemented will see the largest increase for homes with values higher than $5 million, and brackets will be separated with distinct home sale values [under $1.5 million], [$1.5 to $3 million] [$3 million to $5 million], and [above $5 million].

The projected revenue generation is seen below for the 13 case studies with respect to a low, median, and high implementation tax scheme.

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[106] State of California. "California Legislative Information Code Section." Accessed March 10, 2022. https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=CONS&article=XIII+A
[107] Costar

Property Value	Low	Medium	High
Under $1.5 Million	(1%) $132 M	(1%) $132 M	(1%) $132 M
$1.5 Million to $2,999,999	(1.25%) $238 M	(1.5%) $285 M	(1.5%) $285 M
$3 Million to $4,999,999	(2%) $331M	(3%) $497 M	(3%) $497 M
Above $5 Million	(3%) $4.746 B	(4%) $6.328 B	(5%) $7.91 B
Total	$5.447 B	$7.284 B	$8.824 B

Table 11. Case Study City Property Transfer Tax Revenue Projection

Equity

A property transfer tax is an inherently equitable policy especially when set at a progressive rate. Because the rate is based on every $1,000 of property value it ensures that those with higher property values shoulder the greatest burden because they are able to afford it. Setting a progressive rate on the tax further ensures that the highest value properties are taxed the most. That was the impetus behind the passage of Culver City's progressive property transfer tax law. Culver City councilman, Alex Fisch, put it succinctly when he said, "[Measure RE] is a more efficient and fair tax than most because it taxes socially created wealth (mostly land prices) a single time when the taxpayer has money to pay... The net effect is that house flippers and large developments will pay the greatest portion of the tax and no one has to pay until they are cashing out of Culver City."[108] Table 12, shown below, illustrates the Culver City real estate transfer tax bracket which can serve as an example of the type of progressive rate that is possible. However, simply raising the existing flat rate tax, like what was done in Emeryville, can also be an equitable source of revenue for municipalities.

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[108] "Culver City Measure RE: Fair Property Transfer Tax? Or 'Millionaire Mansion Tax?,'" *Culver City Observer*, October 22, 2020, https://www.culvercityobserver.com/story/2020/10/22/news/culver-city-measure-re-fair-property-transfer-tax-or-millionaire-mansion-tax/9405.html.

There is however the possibility that the progressive property transfer tax may have a dampening effect on the sale of property, particularly single-family homes. Because homeowners in California tend to be older and whiter than renters, that could make it more difficult for younger people of diverse backgrounds to purchase a home.[109] However, the effect is likely to be small according to a report from Shane Phillips.[110] He notes that the long term property tax savings of Proposition 13 outweigh the small costs imposed by the transfer tax. However, this small caveat is enough to make the equity score a 4.5.

Tax Rate[111]	**Property value**
.45%	Under 1,499,999
1.5%	Between 1,500,000 and 2,999,999
3.0%	Between 3,000,000 and 9,999,999
4.0%	Above 10,000,000

Table 12. Culver City Progressive Property Transfer Tax Rates

Alternative 3: Proposition 13 Reform

Explanation

The third alternative is to reform Proposition 13 in order to allow for higher tax rates on properties, as was attempted with Proposition 15. Before its passage in 1978, property tax rates were set at the local level, with the average property tax rate in the state 2.67%.[112] Importantly,

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[109] California Association of Realtors, "Housing Affordability for Black California Households Is Half That of Whites, Illustrating Persistent Wide Homeownership Gap and Wealth Disparities, C.A.R. Reports" (California Association of Realtors, February 17, 2021), https://www.prnewswire.com/news-releases/housing-affordability-for-black-california-households-is-half-that-of-whites-illustrating-persistent-wide-homeownership-gap-and-wealth-disparities-car-reports-301230161.html.
[110] Phillips, "A Call For Real Estate Transfer Tax Reform."
[111] "Real Property Transfer Tax," culvercity.org, accessed March 11, 2022, https://www.culvercity.org/Services/Make-a-Payment/Real-Property-Transfer-Tax.
[112] Taylor, Marc. *Common Claims About Proposition 13*. Sacramento: Legislative Analyst's Office, 2016. Accessed March 10, 2022. https://storymaps.arcgis.com/stories/94729ab1648d43b1811c1698a748c136

property taxes were based on a home's market value, and was appraised cyclically, with no more than five years between an assessment of the value.[113] That stands in marked contrast to the current property tax system in which a property's value, and therefore tax, is generally assessed at the time of sale.

Political Feasibility

Proposition 13 is often described as the third rail of California politics. Jon Coupal, the president of the Howard Jarvis Taxpayers Association, once said "Like it or not, Proposition 13 has almost mythical powers against those who would assail it."[114] Mythical powers aside, any effort to reform the measure has been met with stiff resistance. As noted above, Proposition 15 was a relatively small change to the measure and it generated significant opposition en route to a defeat at the polls. Any Proposition 13 reform is further hampered by the process restrictions of the California initiative system. Because Proposition 13 was a ballot initiative the legislature cannot amend the law and courts have consistently defended its legality The only way to reform it is with another ballot initiative. Gathering signatures for ballot initiatives can be expensive. Fees for paid signature gatherers can range from $6 to $15 a signature.[115] During the Proposition 15 campaign both sides spent a combined $139 million.[116] Raising the property tax rate or changing the frequency of assessments would almost certainly generate similar if not more opposition and therefore would be expensive.

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[113] Board of Equalization. *California Property Tax: An Overview*. Sacramento: Board of Equalization, 2018. Accessed March 10, 2022. https://www.boe.ca.gov/proptaxes/pdf/pub29.pdf
[114] Myers, "California Voters Reject Big Changes to Landmark Property Tax Measure Prop. 13."
[115] John Myers, "California Politics: Big Bucks for Ballot Measure Signatures," *Los Angeles Times*, January 28, 2022, https://www.latimes.com/california/newsletter/2022-01-28/california-politics-high-price-of-collecting-ballot-measure-signatures-ca-politics.
[116] Myers, "California Voters Reject Big Changes to Landmark Property Tax Measure Prop. 13."

However, Proposition 13 reform is not impossible, as shown by the passage of Proposition 19 which was on the same ballot as Proposition 15. Proposition 19 reformed a small part of the property tax code in California and eliminated the part of the law that allowed parents to pass on their homes and assessed values to their children unless the children declare the property as their primary residence.[117] This provision was not included in Proposition 13 but was based on the precedent set by Proposition 13. So while Proposition 19 did not explicitly change the text of Proposition 13 itself, it represents a softening of the anti-tax culture spawned in the wake of Proposition 13. It shows the possibility of Proposition 13 reform even against the backdrop of Proposition 15's failure. For that reason this alternative receives a 2.5 in political feasibility.

Technical Feasibility

Proposition 13 amended the California Constitution through the ballot initiative process, and, as such, it cannot be amended by the Legislature. UCLA Professor of Public Policy Mark Peterson notes that:

> In California the legislature cannot repeal or amend a law passed through the ballot initiative process (unless the ballot proposition itself has language permitting that kind of legislative action…). There are not just significant political barriers to changing Prop 13, the only way it can be done is through another ballot initiative.[118]

[117] About Proposition 19 (2020) | CCSF Office of Assessor-Recorder
[118] Peterson, Mark. 'APP Group Prop 13 Question'. Email, 2022.

Indeed, Proposition 15, was an initiated constitutional amendment to reform Proposition 13. There are legal mechanisms in place to amend the California Constitution, although the process to do so can be cumbersome. So, this alternative must receive a score of 3.

Revenue Generation

The amount of revenue foregone as a result of Proposition 13 is, of course, unknowable. It is quite difficult to generate a single figure for revenue foregone as a result of Proposition 13. Estimating this figure poses many issues as well. For example, Proposition 13 spurred state and local lawmakers to boost other sources of tax revenue as a result of the loss of a funding stream that made up nearly 28% of all annual state revenues in 1978.[119] Cities and counties elected to raise sales taxes and enact policies that increased the number of retail establishments to recoup Proposition 13-related losses."[120] Additionally, the measure's passage stymied other prospective types of revenue sources, such as "Mansion taxes" that impose an additional annual property tax on residential homes over a certain value.[121]

Researchers utilized annual California tax revenue data from the U.S. Census Bureau Annual Survey of State and Local Government Finances (as compiled by the Urban Institute) to serve as the basis for lost revenue projections. To calculate annual revenue losses, the following formulas were applied, demonstrated using the first full year with Proposition 13 in effect, 1979. "PR" refers to projected revenue, "AR" to "actual revenue."

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[119] U.S. Census Bureau Annual Survey of State and Local Government Finances, 1977-2019 (compiled by the Urban Institute via State and Local Finance Data: Exploring the Census of Governments; accessed 14-Feb-2022 12:05), https://state-local-finance-data.taxpolicycenter.org.

[120] Harold Meyerson, "Undoing Prop 13," *The American Prospect*, October 30, 2020, https://prospect.org/api/content/2a2dc6e4-1a37-11eb-a895-1244d5f7c7c6/.

[121] Choi, Jung, Bhargavi Ganesh, Sarah Strochak, and Bing Bai. "Exploring the Viability of Mansion Tax Approaches," n.d., 29.

<u>For 1979</u>

$$Annual\ Revenue\ Lost\ = (Prev.\ yr\ AR + (Following\ yr\ AR\ -\ Current\ yr\ AR)) -\ Current\ yr\ AR$$

<u>For subsequent years</u>

$$Annual\ Revenue\ Lost\ = (Prev.\ yr\ PR + (Following\ yr\ AR\ -\ Current\ yr\ AR)) -\ Current\ yr\ AR$$

Summing each year of projected lost revenue generates a figure of <u>$262 billion in lost tax revenue as a result of Proposition 13 since its enactment</u>. Table 13 below illustrates these losses by decade. This figure features several limitations and assumptions. The first and strongest assumption in this method is that tax revenue growth remains unchanged with and without Proposition 13. In reality, the measure artificially halts the growth of tax revenue by keeping assessed property values low relative to a growing housing market and inflation. Further effects, such as population and housing expansion offset these effects by causing revenue increases. It is for these reasons as well that pre-Proposition 13 growth rates were not chosen to represent lost revenue figures. Further research ought to capture these competing forces more effectively.

This figure is possibly a conservative estimate for several reasons. First, the $262 billion figure omits lost property tax revenue projections for the years 2001 and 2003. This is because the Census lacks state-level revenue figures off of which to generate projections due to data collection issues. Additionally, work from the California Legislative Analyst's Office (LAO) provides perspective on our projections. In projecting fiscal effects of Proposition 15 in 2020, the LAO found the initiative passage would result in an annual windfall between $8 billion and $12.5 billion annually by taxing *commercial and industrial properties* worth more than $3 million at market rate.[122] Research team projections for 2019's lost revenue figure are $10.9 billion by taxing *all property types*. As a Proposition 13 repeal has greater annual revenue generation potential than our proposed property transfer tax reform but less than that of a land value tax, the alternative is awarded a revenue generation score of 4.5.

Actual vs Projected Property Tax Revenues by Decade, billions			
Decade	**Projected Revenue**	**Actual Revenue**	**Lost Revenue**
1970s (1979)	$11.4	$6.0	$5.4
1980s	$169.4	$108.3	$61.1
1990s	$276.7	$218.7	$58.0
2000s	$387.8	$324.5	$63.3
2010s	$660.8	$586.1	$74.7
Total	**$1,506.1**	**$1,243.6**	**$262.5**

Table 13. Actual vs Projected Property Tax Revenues by Decade, billions[123]

Equity

Proposition 13 is most beneficial to older, white property owners who have owned their property for many years and have benefited from artificially low tax rates. The proportion of white homeowners in California compared to black and Hispanic homeowners is high to this day. A report from the California Association of Realtors noted that, "less than half of Black households earned the minimum income needed to purchase a home as compared to whites...".[124] A reform of Proposition 13 would level the playing field and remove the incentive for Californians to stay in their homes to keep their low property taxes. More housing into the market would reduce the price and increase the availability for new homeowners.

[122] "Taxation of Commercial Property. [Ballot]." Accessed March 9, 2022. https://lao.ca.gov/BallotAnalysis/Initiative/2019-008.
[123] "State and Local Finance Data," Urban Institute, accessed April 9, 2022, https://state-local-finance-data.taxpolicycenter.org/.
[124] California Association of Realtors, "Housing Affordability for Black California Households Is Half That of Whites, Illustrating Persistent Wide Homeownership Gap and Wealth Disparities, C.A.R. Reports."

Proposition 13 reform would have a positive effect on the rental market as well. The unequal effect of Proposition 13 is observed in the individual case of a wealthy landlord in Palo Alto. In 2002 the landlord was renting out a unit for $2,000 a month. In 2017 the same unit cost $8,000 a month yet the landlord only paid $7,480 in yearly property taxes for his entire parcel.[125] The state is essentially subsidizing the landlord's profit. If Proposition 13 reform were enacted the landlord would be forced to pay a more fair proportion of his property value. This could be used to improve schools, build infrastructure, and most crucially build more affordable housing. For this reason Proposition 13 reform receives an equity score of 5.

[125] Michael Levinson, "Landlords and Heirs: Why Prop 13 Isn't Just Unfair, It's Un-American," *Medium* (blog), November 5, 2017, https://medium.com/@michaellevinson_64108/landlords-and-heirs-why-prop-13-isnt-just-unfair-it-s-un-american-20a8597cb37b.

Overall Recommendations

Implement a Land Value Tax for Maximum Revenue Generation Potential

State and local officials must enact policies that have the potential to generate massive amounts of sustainable revenue streams in order to build future affordable housing units. In our analysis, the land value tax yields the greatest potential revenue generation for affordable housing development. While such a policy would likely face opposition from property owners in jurisdictions with higher proportions of land to improvement value (such as Southern California), the revenue generation potential is undeniable. In this way, implementation of a land value tax exemplifies the perennial tension between revenue generation and political feasibility. Additionally, an LVT faces legal barriers via Proposition 13's banning of new taxes on real property. While a state-level initiative proposing an LVT that would earmark a certain portion of revenue towards affordable housing development appears technically feasible, such a measure would find itself subject to a courtroom battle over its constitutionality upon passage.

Implement a Higher Property Transfer Tax for Maximum Political and Technical Feasibility

Given the legal, political, and technical obstacles faced by both Proposition 13 reform and the land value tax, it would be advisable for policymakers at the local level to favor a citizen-based property transfer tax reform measure with the funds earmarked for achieving greater affordable housing stock. While Proposition 13 prevents enactment of a statewide property transfer tax, this can be easily circumvented by focusing on implementing reforms at the local level. The initiative process allows California cities the ability to pass a special tax by a simple majority. If California cities are looking to quickly generate significant revenue earmarked towards affordable housing, increasing property transfer taxes is the ideal solution.

The process for converting from a general law to a charter city poses the only substantial barrier to implementing more progressive property transfer tax measures. There are robust similarities in demographic conditions between the largest cities in California and representative cities that have initiated transfer tax reforms (Culver City and Emeryville), signifying favorable conditions for widespread adoption of such reforms at the local level. Property transfer tax reform is the recommended solution for cities that want to quickly fund affordable housing development.

Implement Reform of Proposition 13 to Reverse Decades of Inequitable Policy and Pave the Way for Future, Progressive Reforms

The past 44 years stand as a testament to Proposition 13's resilience in spite of ongoing debate as to its merits. While a full-scale repeal of the measure seems unlikely, Proposition 13's multifaceted nature also allows for flexibility and adjustments to its language, while achieving policy reform geared towards revenue generation for affordable housing purposes. Even simple changes like reassessing properties every year, rather than at the point of sale, would provide significant revenue for municipalities. Other potential reforms include raising the property tax rate from 1% to 1.5%, removing the 2% cap on annual tax rate increases, tying the rate of increase to the California Consumer Price Index, or implementing a split-roll system. Proposition 13 reform is the most ambitious of the alternatives and would require significant effort on the part of tax reform and housing advocates, but the growing recognition of the affordable housing crisis in California and the near success of Proposition 15 may change the political feasibility equation to allow a reform of Proposition 13 in the near future.

Conclusion

Developing sufficient housing in California is a monumental task that faces numerous obstacles. Approximately 2.5 million new housing units must be constructed to meet demand. The housing crisis is a collective byproduct of anti-growth laws and attitudes, exclusionary zoning, high construction costs, ballot initiatives, and insufficient financing for affordable home construction. Negative effects of inadequate housing can include unaffordable rents, emigration of low-income individuals to other states, less money to pay for necessities like healthcare, and increased commute times. In short, the effects of the housing shortage are not confined to difficulties with paying rent, but are painfully felt in other important ways.

Unfortunately, there is no single panacea to California's affordable housing crisis; a variety of policies are required to address the problem. In addition to the municipal finance reforms recommended herein, policies streamlining the affordable housing permitting process and allowing for greater multi-family housing construction in residential zones would also attack the crisis forcefully.

Since the late 1970s, state and local policymakers have foregone billions of dollars in tax receipts, which, in another world, could have provided the financial means to prevent, or at least ameliorate, the housing shortage. At any rate, the state of affairs needs not continue, and there are potential financial reforms that could allow for greater revenues. Each of the proposed reforms has the potential to generate substantial revenues for the state. A land value tax is most promising in this respect, although in practice it is rare in the United States and faces severe political feasibility concerns. Increased property transfer tax rates also promise greater revenues. They have the added benefit of being in place throughout the state, and so may not be as politically challenging to implement as a land value tax. Given the scale and scope of the housing crisis, and the societal inequities it exacerbates, new and creative solutions will be required to deal with a seemingly intractable problem.

Some of the solutions no doubt will be opposed by various stakeholders with interests in retaining the current tax system. While the current system works well for some, it does not for others. Many low-income Californians have been left to struggle with ballooning housing costs with no end in sight. Policymakers recently have taken some steps to stem housing costs and boost supply, but the sheer scale of our housing crisis calls for bold action. If enacted, the proposed financing reforms can help to address the housing deficiency and make California a place where people of all backgrounds, not just the wealthy, can afford to live and work.

Appendix A

City Name	% White	% Black	% Am Ind	% Asian	% Hawaii/PI	% 2 races	Hisp ratio	White Not Hisp Ratio
Culver City, CA	61.20	8.80	0.30	16.30	0.10	6.90	23.70	45.80
Emeryville, CA	44.60	15.10	0.50	28.80	0.50	7.40	9.60	40.30
Oakland, CA	35.50	23.80	0.90	15.50	0.60	6.90	27.00	28.30
San Francisco, CA	46.40	5.20	0.40	34.40	0.40	5.60	15.20	40.50
Long Beach, CA	51.20	12.70	1.10	13.10	0.80	4.70	42.60	28.20
Fresno, CA	60.50	7.40	1.20	13.80	0.10	4.20	49.60	26.90
San José, CA	39.90	3.00	0.60	35.90	0.50	5.30	31.60	25.70
Santa Ana, CA	40.20	1.10	0.50	11.80	0.30	2.10	76.80	9.40
Los Angeles, CA	52.10	8.90	0.70	11.60	0.20	3.80	48.50	28.50
Sacramento, CA	46.30	13.20	0.70	18.90	1.70	7.40	28.90	32.40
Riverside, CA	58.30	6.20	0.80	7.60	0.30	4.90	53.70	29.80
Stockton, CA	44.80	11.20	0.70	21.50	0.60	11.80	42.70	20.60
San Diego, CA	65.10	6.40	0.50	16.70	0.40	5.30	30.30	42.80
Anaheim, CA	66.40	2.70	0.50	16.80	0.40	3.30	54.30	24.20
Bakersfield, CA	67.70	7.60	0.90	7.40	0.20	3.80	50.20	32.50

Table A1: Race/Ethnicity Variables used to Calculate Similarity Scores

City Name	Median Age	Median Prop Value	Median Income	% of Registered Voters*	% of Rep**	% of Dem***	% of other****
Culver City, CA	42.30	892,000	95,044	0.70	0.10	0.64	0.26
Emeryville, CA	35.80	489,400	102,725	0.53	0.05	0.69	0.26
Oakland, CA	36.90	687,400	73,692	0.48	0.27	0.44	0.29
San Francisco, CA	36.70	1,097,800	112,449	0.52	0.35	0.36	0.29
Long Beach, CA	36.00	556,100	63,017	0.49	0.27	0.44	0.30
Fresno, CA	31.80	242,000	50,432	0.58	0.17	0.54	0.30
San José, CA	31.80	864,600	109,593	0.55	0.13	0.58	0.29
Santa Ana, CA	38.20	491,300	66,145	0.57	0.04	0.71	0.25
Los Angeles, CA	35.90	636,900	62,142	0.50	0.28	0.45	0.28
Sacramento, CA	34.50	336,900	62,335	0.52	0.15	0.56	0.29
Riverside, CA	31.10	365,300	69,045	0.59	0.21	0.47	0.33
Stockton, CA	33.00	273,400	54,614	0.40	0.18	0.53	0.29
San Diego, CA	34.90	602,600	79,673	0.58	0.07	0.63	0.30
Anaheim, CA	35.20	575,000	71,763	0.51	0.17	0.51	0.32
Bakersfield, CA	31.40	247,000	63,139	0.45	0.20	0.52	0.28

Table A2. Political and Economic Variables used to Calculate Similarity Scores

**Proportion of registered voters as a % of the population*

***Proportion of registered Republicans as a % of registered voters*

****Proportion of registered Democrats as a % of registered voters*

*****Proportion of other registered voters as a % of registered voters*