



Fixing California's Commercial Property Tax System Will Help Communities Increase Affordable and Sustainable Housing | AUGUST 2020



Schools & Communities First is part of the solution to California's severe housing shortage.

The California Schools & Local Communities Funding Act would reclaim up to an estimated \$12 billion every year for schools and local communities by closing commercial property tax loopholes that corporations and wealthy investors use to avoid paying their fair share of property taxes.

California's current property tax system has contributed to high housing prices by incentivizing commercial property owners to keep land off the market and undeveloped. In addition, it has starved local governments of critical revenues, limiting what they can do to address the housing crisis. **Schools & Communities First would incentivize development and provide local governments across the state with an additional \$7 billion each year, with the remaining funds going to schools.** Local government would be able to prioritize how this discretionary funding is used, and importantly, the funding will provide rare relatively stable year-to-year revenue.



The data is clear:

- **Housing is unaffordable for too many.** The median rent for a two-bedroom apartment is \$2,400.¹ Less than a third of Californians can afford a median-priced home and the situation is worse in some areas – less than a quarter can in San Francisco.²
- **More than 150,000 Californians experience homelessness on any given night,**³ more than 25% of the nation's total.
- California **needs between 3 to 4 million more housing units,** which is 20-30% of our housing stock of 17 million units,⁴ including 1.3 million more affordable rental homes.⁵
- **Lack of affordable housing in urban areas and near jobs has led to sprawl** and long commutes, and it has worsened the climate crisis. Stockton, Modesto, and Riverside have the largest share of super commutes – more than 1.5 hours each way – in the country.⁶ These long commutes and traffic resulting from suburban sprawl are terrible for people's well-being and contribute significantly to increased carbon emissions, air toxics, and harmful health and environmental impacts.

Schools & Communities First will support affordable housing solutions.

1 Schools & Communities First will lead to construction of *more housing*.

Large numbers of commercial properties, especially in urban areas and nearby suburbs – properties with tremendous potential for beneficial development – are currently empty lots, parking lots, gas stations, strip malls, big box retail, warehouses, or underutilized in other ways. The current commercial property tax system incentivizes these uses with low property taxes, allowing property owners to hold their land for speculative prices and thereby inflating land values.

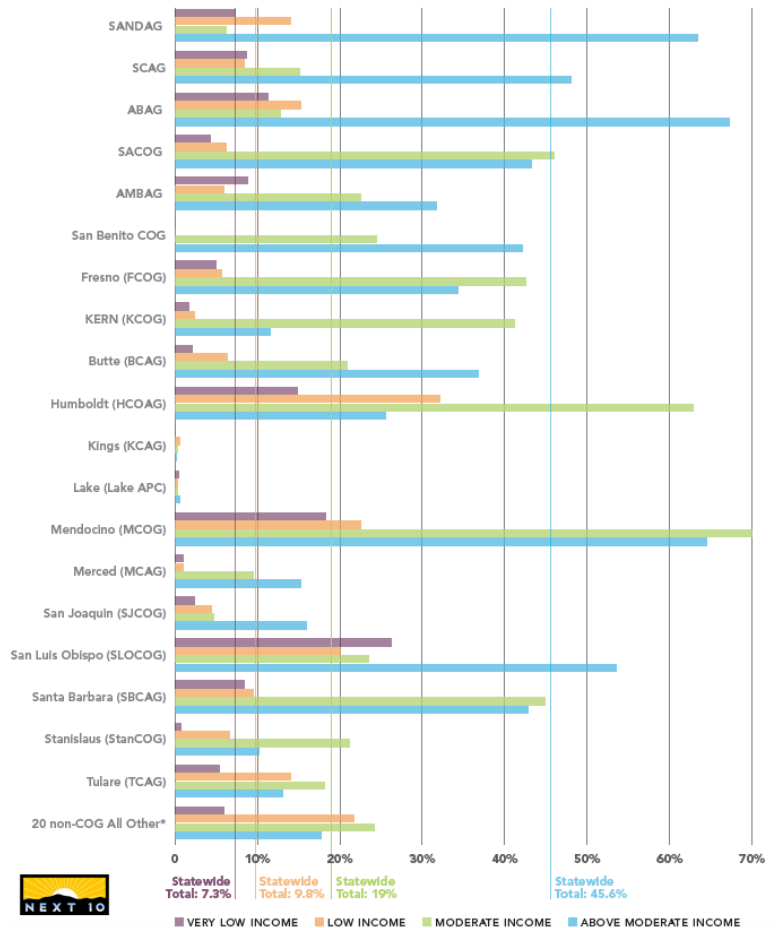
And it’s not only that. Because communities can currently raise revenue from sales taxes and not by increasing property taxes, our system promotes auto malls and big box retail – which generate sales tax revenues – rather than development that serves community needs.

Schools & Communities First will encourage the development or sale of this underutilized commercial land by raising property taxes and making it more costly to do nothing with the land. Many corridors of underutilized commercial land are waiting for revitalization and could be rezoned for housing development. This will incentivize using land in urban areas and nearby suburbs for market rate housing or mixed-use development that combines housing and commercial uses. Local governments know that residential uses enhance commercial values, and vice versa, giving cities the incentive to approve both housing and neighborhood-supporting commercial development.

More housing overall will help to alleviate some price pressure on housing, yet **a sufficient supply of housing to meet the needs of low-income and very low-income people will require significant, targeted investment in affordable housing production.** Local governments are now under stringent requirements to plan for and set goals to achieve their share of affordable and overall housing production to meet state mandates.⁷ With the additional resources Schools & Communities First will provide, they are more likely to build their fair share.

Local impact fees – fees cities charge developers to pay for the costs of the infrastructure needed to support new housing units, like schools and roads – are also a barrier to the construction of new housing.⁸ Schools & Communities First will be a significant revenue source for local government, and that revenue can be used to pay for the infrastructure currently being paid for by impact fees. Doing so would allow cities to reduce impact fees⁹, reducing this barrier to new housing construction.

5th Cycle RHNA Percentage Completion by Council of Government



California is not meeting its goals for construction of housing at all income levels.¹⁰

2 Schools & Communities First will lead to construction of *affordable housing*.

Increasing the amount of land available and decreasing speculation by land owners will help lower land prices.

Given that land is a significant component of the cost of developing housing (as are impact fees, as described above), lower land prices make it more feasible for affordable housing developers to build housing with lower rents or sale prices. Lower land prices also give cities and affordable housing developers more opportunities to purchase land in order to construct affordable housing for low-income families.

All California communities large and small, urban and rural, will benefit from these additional revenues. Local governments can allocate revenue – revenue that will be relatively stable year-to-year – received from Schools & Communities First to the construction and preservation of affordable housing, directly addressing the affordability crisis.

3 Schools & Communities First will lead to *less displacement*.

With limited land available to build housing in urban areas, developers are more likely to redevelop existing housing, either by demolishing it to build new buildings, or by renovating it to create higher-cost units. This can lead to direct displacement of people living in existing housing.¹¹ Schools & Communities First

will result in more land being made available for housing development, mitigating the need for redevelopment. This will mean that fewer people are displaced even as new development moves forward.

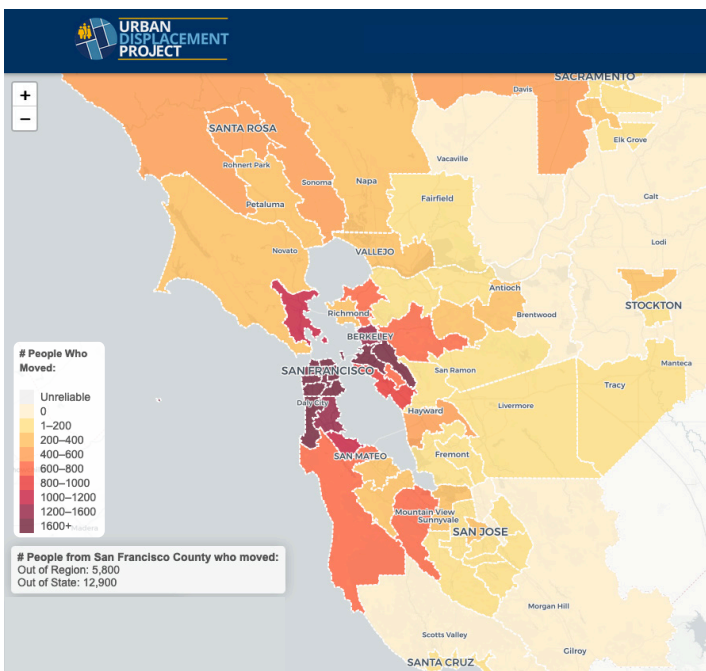
Additionally, research shows that the development of new housing, when it includes affordable housing, reduces residential displacement.¹² As described above, Schools & Communities First will lead to new housing development. This will therefore result in less displacement.

■ **“CLOSING THE CORPORATE LOOPHOLE IS LONG OVERDUE.** *Assessing commercial property on its fair market value will encourage residential development, increase affordability, and provide funding for homelessness and critical infrastructure.”*

MELISSA BREACH
Senior Vice President of California YIMBY



California has some of the worst commutes in the U.S. as measured by the share of commuters who travel 90 or more minutes to work.¹⁵



Displacement from San Francisco.¹³

4 Schools & Communities First will lead to construction of *sustainable housing*.

Exorbitant land prices in many places – including urban centers – lead to sprawling development on the edges of cities and suburbs and result in long commutes, traffic jams, social isolation, wildfire risk, and pollution.¹⁴ Schools & Communities First, as described above, will encourage new housing construction in existing urban areas – housing with good access to jobs, schools, and businesses, and public transit. This kind of sustainable development is good for people, families, business, and the environment.

5 Schools & Communities First will provide communities with funds to *support the infrastructure necessary for new development*.

Communities need the right balance of jobs and housing, as well as the infrastructure – like transit, schools, and parks – to support the people living and working in them. Communities ranging from built-out urban areas to developing rural communities have struggled to find the right balance or build the necessary infrastructure, at least in part as a result of the current commercial property tax system’s senseless incentives as well as the need to use sales taxes to raise revenue.

Voters in recent elections have acknowledged the drastic need for affordable housing and infrastructure by approving increased taxes to address those needs. As areas are developed and new housing is built, communities will need to invest further in infrastructure, and local governments can use the funding from Schools & Communities First to do just that.

Funding will also be used to address additional community priorities. Special districts in counties for fire protection, libraries, hospitals, water, sanitation and similar priorities would be funded directly by Schools & Communities First. This includes funding for:

- **Parks**, like the East Bay Regional Park District and the Riverside County Regional Park and Open Space District
- **Air quality**, like the Bay Area Air Quality Management District
- **Flood control** in Fresno, Orange, San Bernardino, Los Angeles, and many other counties
- **Mosquito abatement** in Merced, Sacramento, Alameda and elsewhere
- Many of the over 350 **fire protection** districts across the state

■ **“Housing California is proud to support Schools & Communities First as a **SIGNIFICANT STEP TOWARDS EQUITABLE TAX REFORM** that will provide local governments with substantially more resources that they can put towards building more affordable homes for those struggling the most.”**

LISA HERSHEY
Executive Director, Housing California

6 Schools & Communities First will provide communities with funds to address homelessness.

Local governments need more resources to address the homeless crisis we are facing across the state. Schools & Communities First will provide new, discretionary funds at the local level so that cities and counties can increase their safety net programs for people experiencing homelessness. Funds could be used for the construction of new emergency shelters, rapid rehousing, rental assistance, deeply affordable housing, and permanently supportive housing and services for people experiencing homelessness. While voters have approved

measures to pay for the supports needed by people experiencing homelessness, those funds are being used up quickly and a more significant investment is needed.^{16 17 18}

While many interventions will be necessary to completely address the housing crisis we face in California, Schools & Communities First will make an important contribution towards ensuring we all have affordable and sustainable housing.

More information at: Yes15.org

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- ⁴ Annual Estimates of Housing Units for the United States, Regions, Divisions, States, and Counties: April 1, 2010 to July 1, 2017. United States Census Bureau.
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YES on 15—Schools & Communities First has been endorsed by the following housing organizations:



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