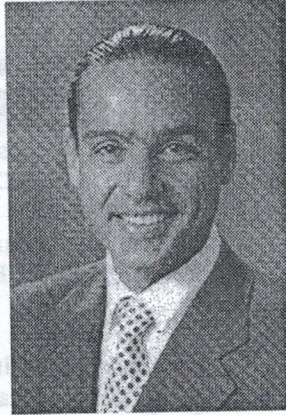


# LVT, LAND USE PLANNING AND SOCIAL AND ENVIRONMENTAL POLICY

(The following presentation by Michael Feinstein, Santa Monica, CA, was transcribed from an audio tape by GroundSwell editor Nadine Stoner. The presentation was made at the Council of Georgist Organizations conference in Newport Beach, CA on July 8, 2014.)

You might be interested to know how I became interested in the land value tax and the Georgist perspective. I got into politics through my local community and at the Findhorn Foundation in Scotland and got exposed to some of the early Green leaders. I went back to Europe and was exposed to a Green organization called Basic European Network. I was one of the cofounders of the Green Party here in California back in 1989-1992 and Jeff Smith and Gary Flomenhoft, whom some of you know, really pitched the idea of land value taxation. I got to see at the beginning how a Green economics could be based overall on the idea of a true cost pricing system that internalized a lot of the environmental damage of fossil fuels and the land value tax that captures the real value and gives it to the people that generate it. I was in office (Santa Monica City Council) between 1996 and 2004.



In 2009 there was a movement to have a Constitutional Convention. It was initiated by the Bay Area Council based in San Francisco, which is a council of the CEOs of the 75 largest corporations in the state. They did an OpEd about how screwed up the state budget was and maybe we needed a Constitutional Convention to deal with it. All of a sudden so many people started writing to them that it was a good idea that they were compelled to start organizing for such a convention and I was involved in that. California has had over 500 amendments to its Constitution since we last had a Constitutional Convention (in 1878 I think it was) that the state isn't workable as we have had all these different changes and they don't relate to each other. The idea of dealing with our structural deficit could best be done in a comprehensive manner at a Constitutional Convention. We could consider how all the different taxes and approaches relate at a Constitutional Convention that had rank and file residents, not political appointees, not elected people who could use it to their advantage, but a diversity of residents could agree on something that would be just and not to favor the 1% at the expense of the 99% was an idea that resonated with a lot of us.

At the time under California law we could have a Constitutional Convention if the Legislature by a 2/3s vote put it on the ballot for the people to decide if we want the Convention. But the people themselves can't do it by Initiative. So we thought we would by Initiative call the citizens of the state to ask for a Constitutional Convention. The signature gathering companies blocked us because they were afraid we would amend the Initiative process and they would lose business. So that didn't happen.

But I had a plan. Why aren't these ideas being posed in other ways? I had planned since 2006 to run for Governor this year until electoral reform happened to our state under Schwarzenegger called the Top 2 System. I had no interest in running in an election that as a Green Party member I would be eliminated in the June Primary. In California the Democrats are going to win almost every state election. That would have been an opportunity to raise these issues.

Santa Monica is called the Peoples Republic of Santa Monica. I am aligned with the Santa Monica for Renters Rights movement. They had brought in rent control in 1979 and by the early 1980s had endorsed enough people that they had a majority on the City Council. Rent control is a good place to start with how the Georgist approach could be used. In the mid 1960s there was no way to get from Santa Monica to downtown Los Angeles but by surface streets. When the interstate highway system extended, eventually it got to building the I-10 freeway, the Santa Monica freeway.

When the I-10 freeway system came in, it entirely changed the dynamics of Santa Monica because now you could live in Santa Monica and work in downtown Los Angeles. That started driving land values up very fast and particularly among apartments in Santa Monica because the value of an apartment building is in a ratio somewhere around 12 times the value that you get by rent. What happened was this speculative wave that hit our city where if you owned a building and you raised the rent on a couple of your tenants by a couple of hundred dollars a month, it had that multiplier effect by 8 to 12 times. So you knock out a few of your tenants by raising rent really high and they can't survive any more and now you sell your building for a windfall. That was happening, and particularly to seniors in Santa Monica who were being thrown out on the streets in homes they had lived in for a long time. First in '77 and then after losing '77, in '79 you had residents doing an Initiative for a Charter City and we got rent control in place.

Here we had an example where there was an alleged public benefit of a new freeway we didn't have before, though many thought it should have been a rail line first, but the gentrification from it caused great social dislocation. Whereas had we had, let's say the Interstate Highway Act passed under the Eisenhower administration, a Georgian component to it, if and when and where there is an interstate freeway that goes in and causes gentrification, capture that increased land value back into the community. In our case it would have made sense to purchase, maybe rehab, and deed restrict, thousands of apartments to protect those rents and the people that lived in them from going out the roof. Rent control in Santa Monica can be understood in response to the fact that we didn't have a land value tax act in place and instead only the negative side of gentrification happened when we got this road. It drove people out when we could have used the increased wealth which effectively went to the apartment owners who sold and turned over and over again. Most (continued on page 10)



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people don't look at rent control that way but those of us who understand the land value tax can see it that way.

Another unique thing to our community is that in 1994 there was the Northridge earthquake. It was a big one and waves from that quake went under Santa Monica so we got whacked in a way that most people didn't know. Pres. Clinton came to L.A. after the quake and our mayor at the time stood up and challenged Clinton that you are giving aid elsewhere but it also happened in Santa Monica. We eventually got declared a Redevelopment Agency for a good two-thirds of our city. We had a steady flow of income. Normally after Prop. 13 cities get from 12%-17% of the property tax, but after the earthquake in 1994 when we were declared a Redevelopment Zone, we got 75% of the increased increment from that time. Gov. Jerry Brown took away Redevelopment a couple of years ago because places like the city of Los Angeles took redevelopment money and just threw it to developers and there was a lot of abuse. What we did with that Redevelopment money is we plowed tens of millions of dollars into affordable housing. That is an example as well as doing public parks as well as doing earthquake retrofits to structures. But in Santa Monica Redevelopment worked. That is an example of how you could take land value tax money and plow it back into your community for the right reasons.

We had rent control for a long time, after the first few waves of people were displaced out of the city. Once that got into place in 1979 that did stabilize rents. There is a city wide rent control board for renters which looks at increases and each year votes, looking at the COLAs and housing specific costs, at something between 0% and 4%.

It has been relatively stable but in 1996 when term limits came in California, there was a state Assembly member from L.A. who was chair of the committee through which a change to rent control had to pass and he was never going to let it go through there. He got taken out in term limits. Then a bill supported by Democrats and Republicans passed called the Costa Hawkins Act. Even though Santa Monica, San Francisco, and Los Angeles had been charter cities and had rent control that made sense for them, and under charter cities they are supposed to have that kind of freedom, they came down with this top down law from the state that said your type of rent control won't work any more. We are going to tell you what kind of rent control or not.

What they did is they changed rent control from what used to be a situation where you lived in a unit and if you left the unit stayed controlled. Now we have vacancy decontrol/recontrol. If a person leaves a controlled unit now that unit goes out into the market to a new market rate and then it is recontrolled at that rate. Then the person who moves into it has a stable rate at their income level but what once was affordable for lower income levels is no longer so. In a place like Santa Monica the land value is so great - we have the Pacific Ocean and 8 square miles surrounded north, east, and south by the city

of Los Angeles. Everybody wants to be here, but the pressure on the land is enormous and therefore it is hard to have affordable housing once you open it up to market forces. What happened then is that between 1996 and where we are today we lost about 30,000 units that were previously affordable up to market levels. That has had a massive change on the demographics of our city. It is much harder to have affordability under those conditions so now where does the land value tax come in under that scenario? When I was on the City Council I was faced with the challenge then how do we actually insure that we can have affordability in our city so that people of different income levels can live there in the post Costa Hawkins world? I believe that a community is healthier when there are people of different income levels in the community. Even if you don't care about humans per se, if you care about traffic, if you care about climate change, you have to have people live closer to where they work so people don't have to go a long way to get to where they work. As we lost our affordable housing, we have had to have more and more people commute from further away to work in Santa Monica. The other thing is remember that the Wall Street speculation money went into real estate in the 1980s.

In Santa Monica there was a brief period where the Renters Rights people weren't in a majority because there was a situation where one person who would have won re-election didn't turn in enough signatures and another person died. More conservative people were on the Council and we ended up in the 1980s changing our zoning and building a giant office park called the Water Garden. So we are now in a situation where we lost our affordable housing and our job/housing balance is way out of whack. In that sort of scenario we have so much commercial development, we have to get more housing and how do we get affordable housing since the land cost is so high. If the public is going to build it, the land cost is really high and Santa Monica is really dense. We are the densest coastal city in southern California; we are landlocked on three sides and there is no place to sprawl. Any public dollars we are going to put in is going to cost the public a lot to do it. When we had Redevelopment money from the earthquake we did modest and important growth in affordability but it wasn't enough either to catch up with the increased office space or what we lost from Costa Hawkins.

Unless you can build it publicly you have to build it privately. The market doesn't want to build affordable housing. Remember, Santa Monica has a lot of hotels because of the beach. So low income workers who work in our hotels have no where to live in the city. Because the land is so expensive you don't have a lot of developers wanting to do projects for that. So the tools that you have normally to get affordable housing from commercial developers who are developing market housing are few. One, there is something called an inclusionary housing requirement where you say for every X number units you build of apartment housing there has to be some level of affordable homes. Another approach is the density bonus. The zoning may say you can go three stories and X number of feet but (continued on page 11)



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if you build affordable housing you can go to a fourth story and thus you can add affordable housing to that. Or if you build a building that is 100% affordable you don't have to pay all the fees and you get moved through the planning process more quickly than another developer does so your holding costs are cut down. So those sort of tools are there but in lieu of a Georgian tax on the land it becomes difficult to do or has some negative political backlash.

Santa Monica has over time had a strong inclusionary ordinance where we used to say we required 30% of all new multi-family construction to be on site affordable. That was what we had in the early 1990s. But after a time there were a bunch of judges appointed when Gov. Deukmejian and Pete Wilson were in office, and developers were going to them to challenge our inclusionary housing. So what ended up happening was there was a change in the law and you started having to do Nexus studies to see if it was feasible for a developer to do, and you had to base your inclusionary laws or your in lieu fees which are a function of that on what is feasible. Most of us are familiar with the land speculation aspect of the current way we deal with land and how a Georgian tax would depress that speculative dynamic. The problem here is when we talk about trying to have an inclusionary ordinance so that the commercial development also builds some non-market rate housing, now we have to do these Nexus fees. What happens is the price of the land is so high you can't really require them to do much. So it undermines our local ability to do that.

One of the problems with that is that there are also Nexus studies that say for every high income level resident you create a job demand for people in the service industry that make less money. So not only do we have to deal with the imbalances in our community from the past, and try to use these tools which are limited by the fact that land prices are too high because we price it wrong because we don't have the Georgian perspective in place, we also have this increased demand for service workers as we build more affordable housing. Over time we have amended the inclusionary housing law to offer an in lieu fee. Again, the developers lobbied the state legislature to weaken the laws we had before and now you have a couple of options. Instead of doing it on site you can do it off site somewhere else in the city, usually within a certain radius. If you locate it on another site you can put your affordable housing there, or you pay an in lieu fee into a fund that the city uses then to build its own publicly paid for affordable housing. But in that scenario, again there are the Nexus studies, and the Nexus studies get back to the idea of is it feasible if you are charging this in lieu fee, can their project pencil?

But there is never any questioning of what the land price is. So land prices just come and go to what they were, and we all have to be accountable to that as if that is some sort of holy grail. So in Santa Monica a lot of new urbanists will argue if you just build more housing you are going to change the market dynamic, the supply is going to lower cost. But in a place like Santa Monica where there is unlimited demand, that is not going to change anything. So until we can get a handle on land costs it just doesn't

work. Thus it gets harder and harder to deal with climate change, deal with traffic congestion, to try and have a multi-class society, etc., with land prices the way they are. So then when it does – and this is interesting because we are starting to get a backlash in Santa Monica – you now have to look at projects that allow even more development, and maybe start to compromise your community's development standards so that the developer can make enough affordable housing. In Santa Monica, not only are we trying to find a place for service workers, but there is also the concept of workforce housing for people who are the teachers. We have a school district in Santa Monica, we have Santa Monica college, we have a couple of hospitals, and police and fire. For police and fire and people who are our educators, shouldn't they be able to live in the city and not burden the public agencies who have to pay them more to live further away and come in? Also, can we decrease the cost for police and fire response times – they are there in the community and can serve in emergencies. We are trying to do it both for lower income people and for higher income people.

So in Santa Monica we have had a history of Initiative and Referenda over development, we seem to have a fight like that every 5 to 10 years, and I have been involved in several of those. Recently, and this brings us to a related issue, the issue of infrastructure and public transit and the land value tax. Some of may know about the Exposition Corridor light rail line (are any of you aware that back in the 1920s Los Angeles had more miles of public transit than any city in the world and it was all torn out?). Finally after years and years we are going to get a light rail line in Santa Monica. We have been working on it since the 1980s and it has been built half way, and this line which has already gone to Culver City is going to come to Santa Monica in a couple of years. There are three stops that are going to be in Santa Monica. One at an area called Bergamot Station Art Center which is this world class art center in old warehouses that was converted by our city in the 1980s, and another one in downtown Santa Monica, and another in the middle near Santa Monica College. There is an old Papermate warehouse in Santa Monica which is a pretty big parcel (and for years we have been talking about developing that) that is across the street from the rail station. The theory that we should be densifying along rail corridors. It is a generally accepted urban planning theory with that people are more likely to ride transit and you can lower your parking ratios so that you don't incentivise people who drive everywhere. They are more likely to be people who want to use public transit like people do in Europe for example. It is possible, even in California, if you do the infrastructure properly.

So Hines Corporation, a big multi-billion dollar global developer, looked for seven years about doing a project right across the street from the rail station. They pitched it to us as a community project, a transit oriented development project. But when we looked at it (it was 765,000 sq. ft. and in that 493 units of housing), of the 493 units of housing there were 24 low income units (actually very low (continued on page 12))



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income, so that was great.) It did get one income category and then the remainder of the so-called subsidy money for some of the housing was for work force housing – for people who were getting 180% of county median, though arguably we should have also focused on the middle income. But in the end what happened was even with all that development of 765,000 sq. ft., because the Hines Corp. paid so much for it, in the end that is all the housing we got out of it. (When we talk about getting public benefits – there were other benefits as well – there was some money that was going to child care, and there was to be a park built right across the street to buffer the neighborhood from the rail line repair yards, so they were putting in some other developments)

That started to happen in Santa Monica and now it is tougher to do housing policy as that traffic has gotten really bad. We made mistakes in the 1980s by having too much office space but also we have the city of Los Angeles developing inappropriately around us. So residents are rising up now and saying we don't want more development. One of the problems is that to deal with the traffic we need more affordable housing. But any project that we want to have more affordable housing has to deal with land prices that are artificially too high because we don't have a Georgian tax on the land. We have to accept too much other development to be able to get the affordable housing that we need, so for many years there wasn't a backlash against affordable housing, but now we are getting a sort of different dynamic that doesn't care about any of the social issues about income and cultural and class diversity and saying no more and even saying no more housing just because they have gotten sick of it. Again, we have to take so much commercial development in order to get the affordable housing we need. Connecting all those dots together it corrupts public policy planning.

Going back and making full circle to the I-10 freeway, I am running again for Council this year. One of the things I am running on this November is because we are so dense and so built out and two-thirds of our residents are renters, we don't have a lot of open space. I am running on taking the air space over the I-10 freeway (most of Santa Monica other than at the beach is far above sea level and they dug a giant U shaped pit in the middle of Santa Monica to build the I-10 freeway). As many of us know, the Interstate highway system was used to divide white and black in the 1950s and 1960s – it did that in Santa Monica. It cut across our Pico neighborhood which was historically an African American neighborhood from the north side where folks had more money. That big hole is open to the sky now. We don't have space for new parks. Yet we are dozens and dozens of acres short of parks and open space that basic urban planning ratios for what a healthy city should have.

What I am proposing is that in three segments over 17 blocks we put a roof – a cap over the top of the freeway – and put park land on the top. It should have been funded originally by the increase in land value that happened to Santa Monica in the 1960s. Had Eisenhower been responsible on

that, that should have been captured way back then and communities could have used that money to both heal the wounds where their communities were divided by a freeway where it was possible maybe then to restore and reconnect neighborhoods when it wasn't above ground but when it was below ground. But also either purchase, rehab it and deed restrict housing or, in this case, maybe use the top for parkland.

Now we are in the situation where I am going to try to start the process and look for funding mechanisms for this. One mechanism I believe in the long term is for the federal government to have a climate change adaptation approach to start funding these kind of projects because it is going to allow for people to meet their recreational needs without using cars to get elsewhere because they will have more open spaces in their cities. That will make sense in the long term. Tomorrow at this conference you will hear Ellen Brown speaking about a public bank for California like they have in North Dakota. Those cut down the lending costs, as Ellen will demonstrate tomorrow, nearly 50%. I am looking at funding in both of those ways for this in the long term. But where it connects back to the land value tax is not just in the past but going forward. One neighborhood that was next to our freeway, the Pico neighborhood (named after the Mexican general who lost the battle of Los Angeles) is still our most diverse neighborhood both by class and ethnicity and race. Now, like a lot of parts of southern California, it isn't all African American; now there have been Latinos that have moved in who displaced them and also working class whites. So it is a diverse neighborhood. But as other neighborhoods have continued to gentrify, now capitalists have started looking at the Pico neighborhood. And because the land is so high there, the pressure to redevelop is leading to a lot of harassment.

People are losing their homes because they don't understand their legal right. Landlords and a whole lot of attorneys are getting people out and/or they want to tear down existing housing and then rent or do both and trying to build more expensive housing on those parcels. Where we look at a land value tax for the long term is, if we go back at undoing the mistake we did with the I-10 freeway because we aren't going to get a second opportunity, if we cap and cover that and put park land there, it is going to be amazing. There will be dozens of acres more and that is going to also gentrify the areas around it. So I believe we have to have a plan going into this process of covering the freeway to also protect the neighborhoods adjacent to it. And the city of Los Angeles is going to go through the same thing. I am in contact with the head of the neighborhood council of Boyle Heights on the east side because the city of L.A. is going to be unpaving the L.A. River as the Army Corps paved over in the '30s and that is going to become a beautiful open space. If L.A. gets the 2024 Olympic bid, there will be a lot of Olympic associated development along that river corridor paid for that way. But the mostly Latino east side also will be gentrified out if there aren't tools in place to capture that increased value and put it back into the community. I hope those are some helpful real world examples.

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