=====

A MODEL FOR THE NATION— WINDFALL PROFITS TO FUND AFFORDABLE HOUSING

By Mary Rose Kaczorowski, Ft. Bragg, CA

Renters in the San Francisco Bay Area have been hammered by explosive rising rents well above historical norms. Stories of tenant evictions and displacement keep making national news as median rents keep climbing. Rent hikes have been blamed on the region's low supply of housing. The high demand for rentals in a booming economy continues to outstrip the available supply. For renters, as rents become unaffordable-- moving out of the area has been become a type of eviction in itself. Long commutes, crowded highways, and fragmentation of communities have become the bane of local governments as they try to grapple with the ramifications of the resulting unaffordable high rents and housing shortage.

Residents in the cities of Berkeley and East Palo Alto took measures into their own hands this past November. Voters passed ballot measures by large majorities in each of these two cities to tax the windfall profits from rising rents. Berkeley's Measure U1, raises the business license tax on residential rental properties from 1.081% to 2.88%, with an exemption for small landlords with less than 5 units and provides a 12 year temporary exemption for new construction. Sponsored by the *Committee for Safe and Affordable Homes*, non-profit affordable housing developers, and homeless service providers, Measure U1 was unanimously endorsed by the Berkeley City Council, the League of Women Voters and dozens of community organizations.

Reasoning behind the Measures

In 1999, the State of California voted to impose "vacancy decontrol" which weakened Berkeley's rent control system. Prior to 1999, the citizens of Berkeley stood by a strong rent control system that allowed for fair return on investment in housing while protecting renters from large rent increases. According to the Full Text of Measure U1, "As a result of "vacancy decontrol" and unprecedented market forces, real rents (inflation adjusted) in Berkeley had gone up by more than 50%. Renters as a result are paying more than $100 million annually in additional rents, over and above the inflation adjustment necessary for a fair return." This historic rise in rent increases extracted from renters impacts both renters and the provision of public services.

The transfer of this windfall of unearned wealth from Berkeley renters to primarily non-resident large corporate rental enterprises, drains the economic health and stability of what Berkeley was known for - from affordable rents, local small business start-ups, close knit community and cultural institutions.

In the smaller City of East Palo Alto, California, median rent prices increased 90% over the last 5 years. This extraordinary increase produced an estimated $9,000,000 annually in increased rental revenue for large landlords, and at the same time it generated a severe housing (cont'd on p. 5)

(MODEL FOR THE NATION (from page 1)

affordability crisis that has resulted in displacement of local citizens and businesses, and fueled fast paced gentrification.

According to retired City of Berkeley Housing Director and Co-Chair of the Berkeley U1 campaign Stephen Barton Ph.D., "The ballot measures in Berkeley and East Palo Alto are based on an important economic principle-- the three things that determine whether real estate will go up in value are 'location, location and location'. However, it is not the landlords who make locations in the San Francisco Bay Area valuable. It's the public, homeowners and renters alike, who make it valuable by investing in the public services such as education, parks and transportation, preserving our beautiful natural environment and creating a diverse and creative culture that encourages innovation and a thriving economy."

Barton further explains that, "Real estate investors take advantage of the value that community and local business create and then charge tenants higher rents for this value that is created by the public. Nothing could be more appropriate than to tax this unearned income and reinvest it in affordable housing and preventing homelessness for the tenants who are most harmed by high and rising rents."

By increasing the business license tax on high residential rents, Measure U1 in Berkeley, and Measure O in East Palo Alto now sets the stage to recapture a part of this income stream for the benefit of the entire community.

How does it work?

These measures are not a property tax on homeowners or renters. East Palo Alto's Measure O stipulates a genral tax of 1.5% on gross residential rental receipts and applies to owners of five or more rental residential units in the City who lease the units to tenants. Measure O is projected to raise $600,000 annually to be used as directed by the City Council for general fund purposes, such as funding programs to increase affordable housing, and protect local residents from displacement and from homelessness.

In Berkeley, California, the existing tax for landlords with five or more units is a modest 1.081 percent. Measure U1 increases the tax to 2.88 percent and is projected to raise an estimated $4+ million in tax revenue every year.

In both cities, the increase in the new rates for the business license tax on residential units exempts small landlords. Exemptions were formulated that act as a grace period on new construction (to encourage housing development). There are also provisions for hardship exemptions.

New Construction Exemption

The Measure U1 increase on business license tax on residential units starts this year, in 2017. According to Barton, "Measure U1 stipulates that a temporary exemption for 12 years is grandfathered in". For example, housing built 5 years ago in 2011 is under the 12 year exemption and will have another 7 years at that level, so the increase won't be paid until 2023. That is 12 years from the actual certificate of occupancy. Everyone who is exempt from the increase continues to pay the already established 1.081% tax. East Palo Alto's Measure O has similar provisions to encourage new construction.

EXCERPTS FROM MY CONVERSATION WITH STEPHEN BARTON:

KACZOROWSKI: Can you explain further the relationship between New Construction in relation to Measure U1 and Measure O?

BARTON: These temporary exemptions for new construction responded to two concerns. First, we don't want anyone to be able to say that we are discouraging new construction when we need additional housing supply. Second, we felt that it would be unfair to change rules on people right away when they had just invested major amounts in creating new housing.

KACZOROWSKI: What about the argument that if taxes go up the landlords will just increase the rent?

BARTON: That is not how it works. As we can see with rents in the San Francisco Bay area, rents are set by ability to pay under conditions of scarcity. A major part of what the tenant pays is land rent, in addition to the costs of operating and maintaining the rental property. Landlords may say that they will increase the rent if the tax passes, but the reality is that under current conditions they will increase the rent anyway, whether it passes or not. The measure would prohibit landlords from passing the tax on to sitting residents, even if otherwise permitted by law.

KACZOROWSKI: Many people feel that developers make huge windfalls at the expense of renters. Can you address this?

BARTON: Developers do not necessarily make a huge windfall - they do have the expense of actually building very expensive high density projects. Big windfalls often come further down the line when there is an owner who has the good luck to own the building when we see a major cyclical rise/ increase in rising rents. That's when the big windfall comes in—and it is depending upon if developers hold onto the property for the long term.

I regard it as unbalanced that there is a big focus on exactions from developers who are at least adding housing during this housing crisis where we have a supply shortage, versus those who bought an existing building in a down cycle and are hoping to cash in through rising land rents.

KACZOROWSKI: Back in 1978, California's Proposition 13 rolled back property values and reduced property taxes. Prop 13 requires that when legislative bodies in the state (either the state legislature (continued on p. 16)

MODEL FOR THE NATION (from page 5)

or local governing boards) wanted to raise taxes, a two-thirds majority vote is required. Prior to Proposition 13, local jurisdictions independently established their tax rates and the total property tax rate was the composite of the individual rates, with few limitations. It has been said that Prop 13 was passed by voters due to an angry backlash to rapidly rising taxes. As we all know, Prop 13 created a whole host of problems that were unforeseen at the time by the voters. We ended up with serious inequities, defunding of California's once renowned educational system, and the resorting to regressive tax structures (i.e. Sales tax, etc.) as sources of additional revenue for critical programs and shortfalls. What do you think is now needed to address the shortfalls of Prop 13?

BARTON: The State of California desperately needs to amend prop 13 where vacant land can get taxed to its full developed value. It is so easy and cheap to sit on vast amounts of land. There is a great likelihood that California's super majority Democratic legislature will consider split roll - which would tax non-residential land uses at current value. The 1 percent of value tax limitation would not change, but this would re-assess non-residential land use at current values. As it is now, land that is unsold, and/or not newly improved, the assessment rise in value is capped at 2 percent a year, while market prices soar. Dr. Mason Gaffney, Professor Emeritus of Economics at UC Riverside has for years cogently addressed this issue of taxation and land.

KACZOROWSKI: Dr. Gaffney's writings and publications, including his book "The Great Crash and Beyond" (Wiley-Blackwell Publishers), deftly discusses the concepts of rent-as-public-revenue as a pathway to tackling the issues of public finance, urban renewal and environmental conflicts from the ground up. How can readers find out more about these tax measures?

BARTON: We have a web site www.fundaffordablehousing.org, with the summary and text of the measures, background articles, and all of our campaign literature. We think this type of tax increase can be widely applied in California and hope the web site will be a resource for activists in other cities.

(Dr. Stephen Barton was the Co-Chair of the ballot-measure Yes on U1 campaign to pass an increase in the business license tax on rents to fund affordable housing in Berkeley, California. He continues to work on helping and advising activists in other cities to prepare and organize similar campaigns. Prior to his recent retirement, Dr. Barton was the Director of Housing for the City of Berkeley, and a former Deputy Director of the City of Berkeley Rent Stabilization Program. He is the current Vice-Chair of the Bay Area Community Land Trust. He has a Ph.D. in City & Regional Planning from the University of California, Berkeley, and he is the author of numerous articles on housing policy and economics.)

(Mary Rose Kaczorowski has been a NGO Representative to several (concluded on page 15)

MODEL (concluded from page 16)
U.N. Commissions and Meetings working on the issues of Climate Change, Environmental and Forest protection, and Sustainable Development Goals (SDGs) relating to women, sustainable development, land access and adequate shelter and housing. She is the President of Common Ground-USA's California Chapter. She has a B.A. in Public Policy from Mills College (Oakland CA), a Masters in Theological Studies focusing on Judeo-Christian, Islamic & Buddhist Ethical Traditions from Pacific School of Religion (Berkeley CA), and she is an alumna of the Academy for International Conflict Management and Peacebuilding, United States Institute of Peace, Washington DC) <<