REMOVING FISCAL BARRIERS TO HOUSING PRODUCTION

JUNE 2023

GATEWAY CITIES
COUNCIL OF GOVERNMENTS

CAFWD
CALIFORNIA FORWARD

URBAN FOOTPRINT

CALIFORNIA COMMUNITY BUILDERS

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EXECUTIVE SUMMARY

California faces a severe housing crisis and needs to build more homes. Many of the Gateway Cities[1] in southeast Los Angeles County are densely populated. These cities have economically disadvantaged populations that are burdened by housing costs and live in overcrowded conditions. New housing production offers the opportunity for much-needed economic development in the Gateway Cities, but California's current complicated system of municipal finances means new housing would further constrain Gateway Cities' budgets. Further, physical space constraints, coupled with increasing Regional Housing Needs Allocation (RHNA) allocations and new state legislation opening commercially zoned land for infill housing, means that Gateway Cities are seeking retail-to-residential conversion opportunities that also would likely result in decreased sales tax revenue.

In this study, California Forward (CA FWD), in partnership with the Gateway Cities Council of Governments (Gateway COG) and UrbanFootprint, examined the relationship between property tax shares and housing production across California cities, modeled the net fiscal impact of building housing on 19 commercial and industrial sites in the Gateway Cities and modeled the impact of the sixth RHNA process.

Analysis of 16 of those 19 sites resulted in a net loss to the city due to increased city services costs and the impact on tax revenue. In addition, in examining the impact of the sixth RHNA cycle on the Gateway COG, all but four cities showed a net negative impact from an assumed full build-out of the RHNA allocation of units, with a cumulative negative impact of over $36 million annually across all Gateway Cities.

This study builds on work conducted by CA FWD and the San Francisco Bay Area Planning and Urban Research Association (SPUR) in 2021 examining the relationship between state tax policy and housing production in the Bay Area. That study found a fiscal disincentive to housing production in low property tax allocation cities and proposed four principles for reforming the state-local fiscal relationship:

1. The tax system should be fair
2. The tax system should provide adequate revenues
3. The tax system should not discourage housing production
4. The tax system should be simple and clear

Those principles from the 2021 SPUR and CA FWD study are provided in full in **Appendix 5.** In line with those principles and in order to redress the structural financial impacts shown in this study, the state should create a blue-ribbon commission with the mandate to reform the wide disparities in city property tax allocations. The Gateway Cities provide a clear example of the larger, statewide inequity in the existing property tax allocation system.

[1] The Gateway Cities Council of Governments (COG) is composed of 27 cities and parts of unincorporated Los Angeles County. See Appendix 4 for a map of the cities.

CONTEXT ON CALIFORNIA'S HOUSING CRISIS AND MUNICIPAL FINANCES

Since 2010, median home prices have increased 264% statewide, approximately the same as the increase in Los Angeles County during that time.[2] The long-term cause of this crisis is the lack of housing that has been produced in the state.

This shortage threatens California's diverse and dynamic economy, while impacting the lives of millions of Californians who spend far too much of their income on housing, leaving little remaining to meet the needs of daily living. According to the California Dream Index published by CA FWD, over 37% of Californians earn an income lower than the real cost of living.

The state has enacted numerous new policies aimed at addressing this housing supply and affordability crisis. For example, in 2022, Senate Bill 6 and Assembly Bill 2011 were signed into law with the aim to unlock housing production in commercial areas – those which were particularly impacted over the course of the COVID-19 pandemic.

The pandemic dramatically accelerated the transformation of the retail sector, disrupting the economic viability of many commercial sites. In-person shopping has plummeted as more and more spending has moved online. That shift has caused declines in city sales tax revenues and uncertainty about the future as commercial centers are examined for potential redevelopment into residential or mixed use.

[2] Source: US Census Bureau.

In 2020, CA FWD partnered with the San Francisco Bay Area Planning and Research Association (SPUR) to examine the relationship between state tax policy and housing production.[3] That study found an association between lower property tax shares and lower housing production in Bay Area cities.

Here we asked the same three basic questions as in that study, but focused on of the Gateway Cities Council of Governments (Gateway COG) in Southern California:

1. **What drives the tax base** in cities and how does that tax base vary from city to city?

2. **How does housing production relate** to the reliance on property taxes and the share received by the Gateway Cities?

3. **What are the tax and policy changes needed** to make housing a fiscal positive for cities in the Gateway COG and across California?

Gateway Cities are of particular statewide interest as they are prime candidates for revitalization in alignment with recently passed legislation aimed at implementing place-based strategies that seek to convert uneconomic commercial corridors into mixed use and residential areas. Yet the property tax share received by Gateway Cities, due to the process by which property tax allocations were memorialized in the wake of the 1978 passage of Proposition 13, provides a severe fiscal disincentive to housing production – some of the most severe in the state.[4]

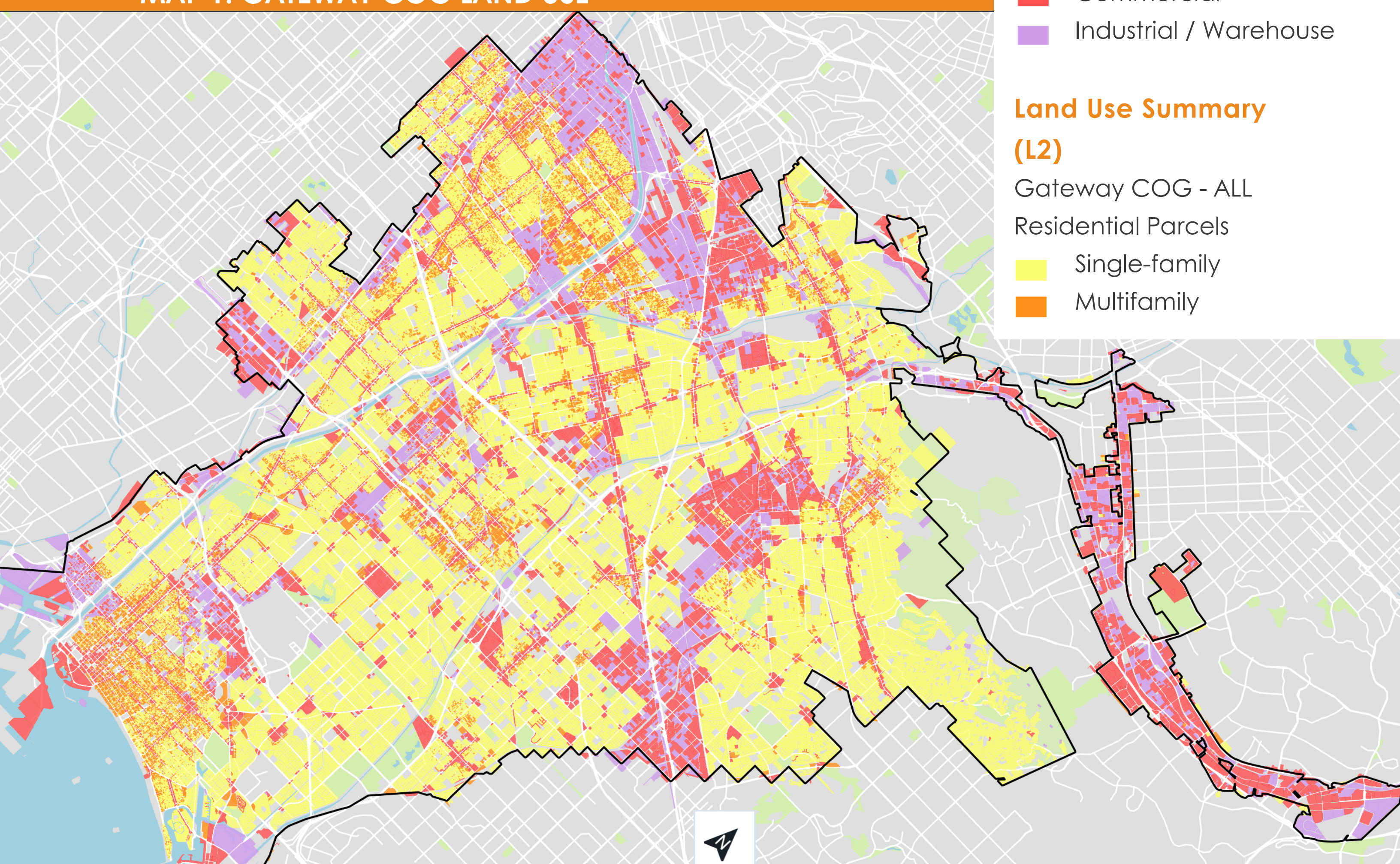
This study provides an in-depth methodology using the powerful analytics of UrbanFootprint, a software analytics tool for urban planning. In addition to city-wide fiscal trends, this study includes site specific case studies examining pro forma analyses of the net fiscal impact of those projects and the implications for the ongoing RHNA cycle.

[3] "[Does State Policy Discourage Housing Production?](#)" SPUR and CA FWD, September 2020.
[4] Note this disparity in the share of property tax cities receive is an indirect rather than direct consequence of Prop 13.

WHAT DRIVES THE TAX BASE OF GATEWAY CITIES?

The Gateway Cities Council of Governments consists of 27 cities and parts of unincorporated Los Angeles County. Many of these cities are contract cities, those that contract with outside agencies for municipal services, thus rendering their own municipal budgets and staffing levels modest. The following **Map 1** of the Gateway Cities subregion depicts the parcels zoned for commercial and industrial, as well as those zoned for residential. Those parcels are spotlighted to provide a spatial picture of the significant potential redevelopment opportunities in the subregion. However, the Gateway Cities receive low, to almost no, share of property tax generated in their service areas due to the methodology used to allocate property taxes under AB 8, in the wake of the passage of Proposition 13 in 1978. As a result of the AB 8 methodology, the share of property tax a local government receives is largely a function of the relative amount of property tax the local government received prior to 1978.

MAP 1: GATEWAY COG LAND USE



The Gateway COG subregion also includes the City of Avalon on Catalina Island, not mapped here.

The Legislative Analyst's Office provides the following illustrative calculation, which simplifies the arithmetic involved to illuminate the general dynamic: "if before Proposition 13 a [local government's] property tax revenue had been $100,000 and the countywide property tax revenue had been $1 million, the [local government's] share would be 10%."[5]

Thus, cities that were less affluent prior to Proposition 13, such as many in the Gateway COG, have property tax shares that remain at detrimentally low levels.

While cities may develop economically and become more affluent, the percentage of the property tax generated within their boundaries that returns to them remains largely the same as the initial allocation set by AB 8. That provides a profound fiscal disincentive to housing production when the cost of providing services outweighs the revenue that could be generated to fund those services for the new residents of new housing.

Redeveloping commercial and industrial space with a low property tax allocation means that cities will likely lose sales tax revenue but will gain only a small share of the property tax increase. This is particularly true within the Gateway Cities.

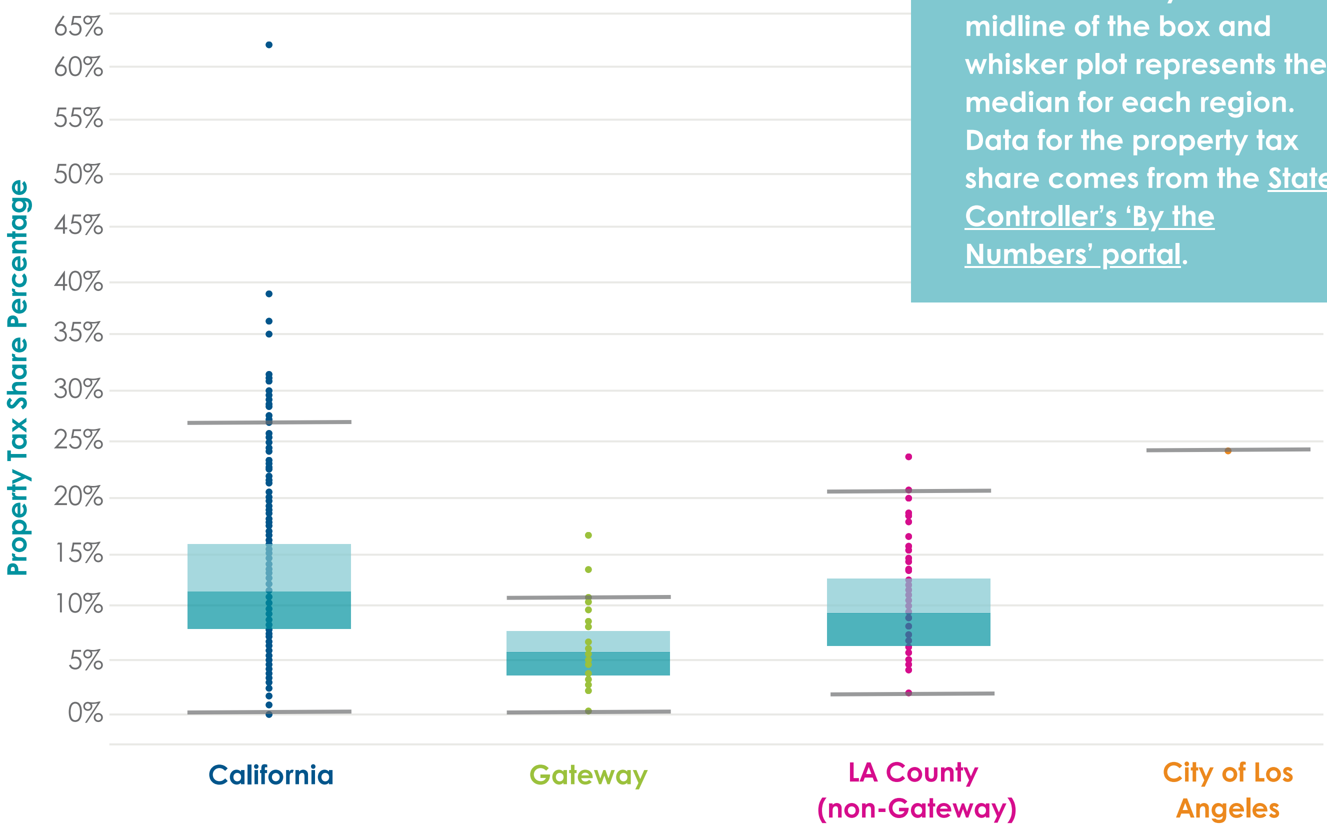
[5] LAO "Why the Mid-1970s Play a Large Role in Property Taxes Today," January 2016.

The Gateway Cities receive some of the lowest shares of the property tax in the entire state, although the share varies across these cities. Several cities receive near 0% at the low end, to the highest at approximately 17%. The following **Chart 1** shows the distribution of property tax allocations received by Gateway Cities, other Los Angeles County cities, the City of Los Angeles and the rest of California.

Within the Gateway Cities, there is a wide range in General Fund reliance on property tax revenue. Property taxes provide on average approximately 11% of the General Fund Revenue for the typical Gateway City. Nine of the 27 cities receive less than 5% of their General Fund Revenue from property taxes.

This study investigates how this rigid fiscal structure inhibits achieving California's interest in converting commercial and industrial sites to housing by examining financial trends across the Gateway COG and investigating the fiscal impact of specific housing projects in the Gateway COG.

CHART 1: GATEWAY CITIES RECEIVE LESS PROPERTY TAX ALLOCATION



This chart shows the share of property taxes received by Gateway Cities compared to other Los Angeles County cities and California. The Gateway Cities receive much lower property tax allocation than comparative cities. Each dot on the chart represents a California city. The midline of the box and whisker plot represents the median for each region. Data for the property tax share comes from the State Controller's 'By the Numbers' portal.

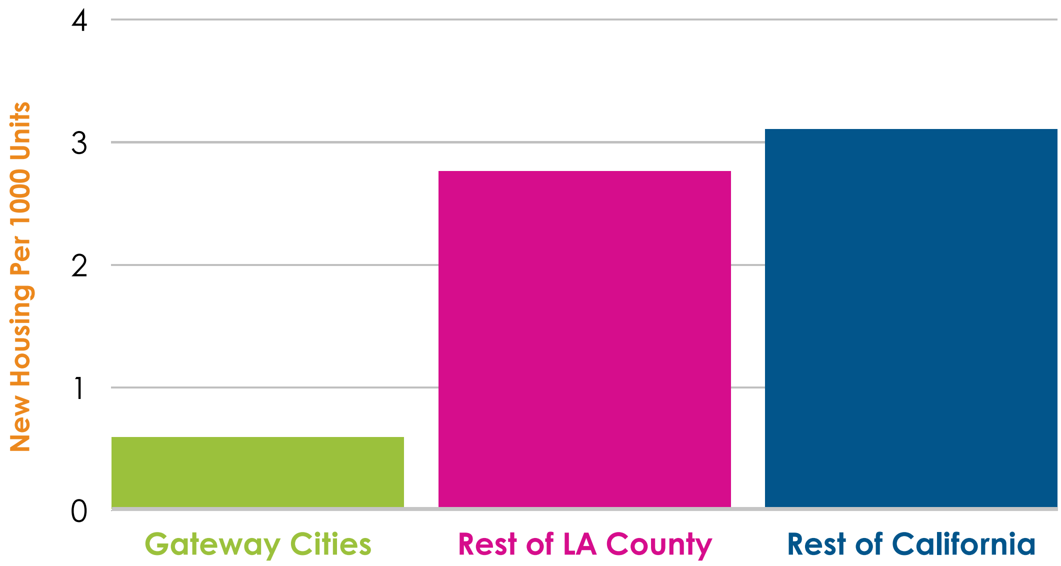
HOW DOES HOUSING PRODUCTION RELATE TO THE RELIANCE ON PROPERTY TAXES?

New residential housing can generate municipal revenue by increasing the assessed value of property and thereby increasing property taxes. If a city receives a low or essentially no share of the property tax generated, however, the city has little fiscal incentive to zone for and permit new housing development.

In fact, new housing creates new costs for a city by increasing the demand for city services such as police, fire, street maintenance and other core activities to serve the increased population. Those services cost the city money. New residents can lead to increased sales taxes, though those revenues can be offset by decreases in sales tax revenues from the loss of converted retail.

As described in the previous section, the Gateway Cities receive among the lowest property tax share of any cities in the state. In addition, as shown in **Chart 2** below, less housing has been produced per capita in the Gateway Cities than in the rest of Los Angeles County, and in the state as a whole, over the past seven years.[6]

CHART 2: GATEWAY CITIES HOUSING PRODUCTION PER CAPITA



Much less housing has been produced per capita in the Gateway Cities than the rest of Los Angeles County, or the state as a whole, from 2015 to 2021.

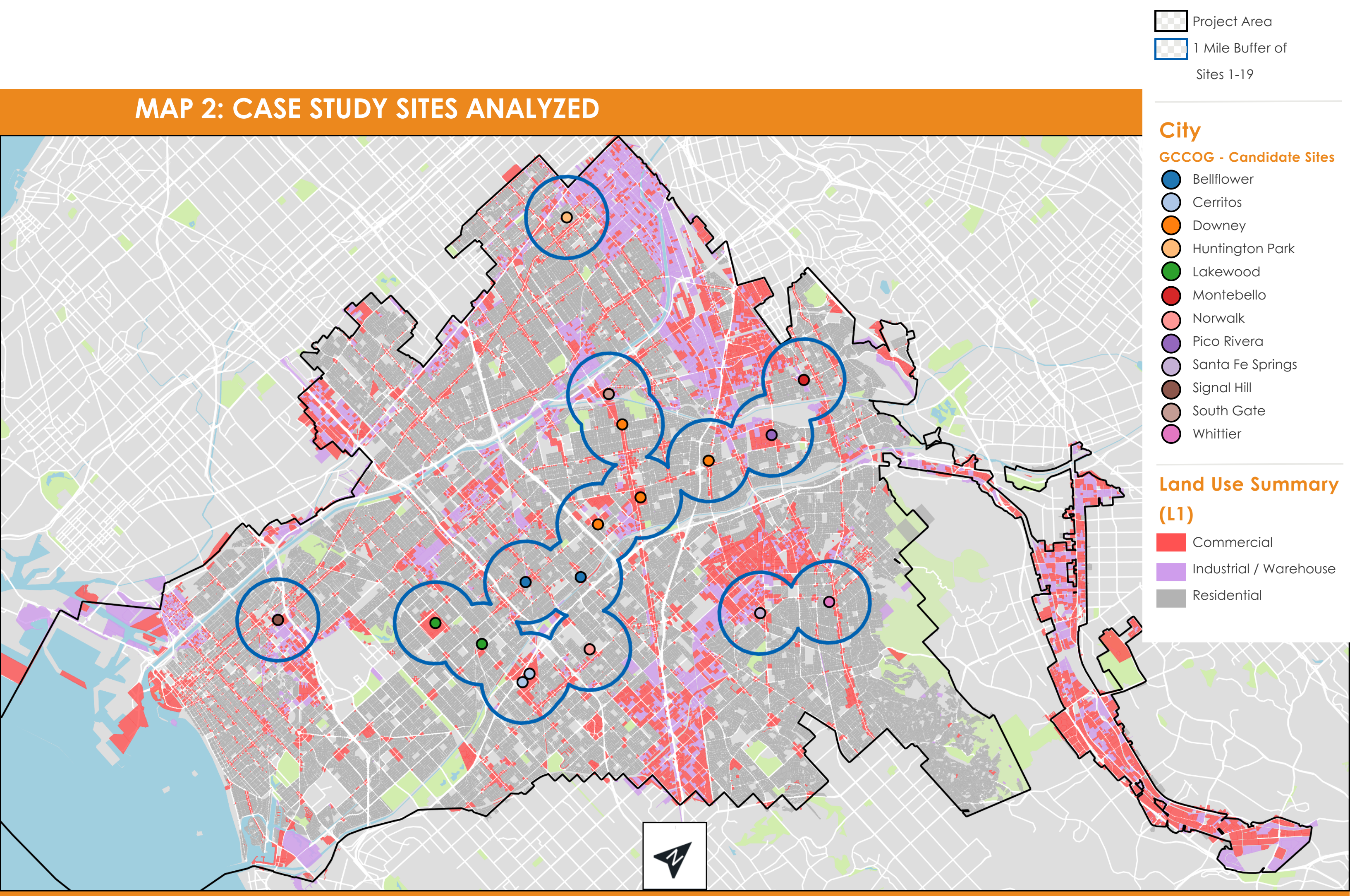
[6] Source: California Building Industry Association residential construction data. (2015-2021)

NET FISCAL ANALYSIS OF CASE STUDIES SITES

This study used case studies from across the Gateway Cities subregion to examine the project specific economics of new housing developments. Case study projects were submitted by cities or were sourced from publicly available documentation.

Nineteen specific case study sites were examined to understand the net fiscal impact of building housing in those areas. Those sites are shown in the **Map 2** below. Commercial and industrial parcels are colored in red and purple, respectively.

MAP 2: CASE STUDY SITES ANALYZED



The Gateway COG subregion also includes the City of Avalon on Catalina Island, not mapped here.

The net fiscal impact for most of the case studies was negative at an assumed density of 25 dwelling units per acre, and indicates a substantial fiscal disincentive to new housing production. See **Table 1** below for the full results.

This net fiscal calculation was derived using the property tax share for each city – including both the direct property tax and motor vehicle license fee (MVLF) swap, as well as an estimate of the induced sales tax gain from new residents and new development – and the sales tax loss from assumed retail square footage conversion to housing. In addition, the cost of providing city services for additional residents was estimated using the variable share of city budgetary expenses. The full net fiscal impact methodology is available in **Appendix 2**.

Notably, the net fiscal result for 16 of the case study sites, or 84% of the total investigated, was negative. Eleven of the 16 (69%) sites each have more than $50,000 in net negative fiscal impact.

This financial reality is only slightly improved by greater density, since the additional residents cause additional fiscal service burdens. Three of 19 (16%) of the case study sites showed a positive net fiscal impact. Increasing the density of the new developments improves the net fiscal impact numbers slightly in some instances. Positive net impact sites increase to four of 19 (21%) at 30 units per acre scenarios. Positive net impact sites increase to five of 19 (26%) in the 33, 40 and 60 units per acre scenarios. These impacts are site and city specific.

Generally, however, the core drivers of positive or negative net fiscal impact result from the cities' property tax share and the level of per capita expenditures for the city.

TABLE 1: FISCAL IMPACT SUMMARY FOR RETAIL TO RESIDENTIAL CASE STUDIES (25 DU/AC)

City	Site Name	Acres used at Site for Development	City's Single Resident Sales Tax Capture (25 DU)	City's Annual Net Property Tax & MVLF collected (25 DU)	City's Annual Net Revenue Collection (Property Tax & MVLF + New Resident Sales Tax - Lost Sales Tax) (25 DU)	Annual Potential New Resident Fiscal Costs (Per Capita Per City Budget)	City's Annual Net Revenue after New Resident Costs (25 DU)
Santa Fe Springs	Gateway Plaza	20	$257	$608,048	$462,467	$4,583,601	-$4,121,135
Cerritos	Former Sears at NW Los Cerritos	12	$132	$382,830	$455,226	$2,137,417	-$1,682,191
Signal Hill	Auto Center Specific Plan and Commercial Office	3	$226	$98,840	$145,061	$448,021	-$302,960
Downey	8460 Telegraph Road / 8821 Stoakes Avenue (Current to R-3)	1	$177	$25,738	$32,225	$32,290	-$65
Downey	9559 & 9607 East Imperial Highway (Convert to R-4)	9	$177	$439,005	$437,869	$550,761	-$112,892
Downey	Old River School Road / 7447 Firestone Boulevard	1	$177	$37,393	$47,889	$46,912	$977
Bellflower	Serrano Edgeway in Bellflower	1	$143	$26,729	$9,637	$26,245	-$16,608
Lakewood	Lakewood Center	39	$291	$1,357,854	$2,240,267	$2,138,633	$101,634
Lakewood	Lakewood Marketplace	5	$291	$165,600	$201,881	$260,822	-$58,941
Downey	Stonewood Center	22	$177	$1,057,206	$910,483	$1,326,335	-$415,851
Cerritos	Los Cerritos Center	17	$132	$551,594	$714,058	$990,047	-$275,988
Whittier	Quad at Whittier	4	$229	$154,960	$200,575	$261,978	-$61,403
Norwalk	Norwalk Swap Meet - 11600 Alondra Blvd	8	$237	$341,200	$428,579	$445,966	-$17,387
Bellflower	Former K-Mart - 10400 Rosecrans Avenue	12	$143	$442,831	$577,438	$434,818	$142,620
Montebello	Montebello - 815 W Olympic Boulevard	1	$190	$49,828	$22,681	$101,977	-$79,295
Pico Rivera	Pico Rivera Towne Center - 8500 Washington Boulevard	10	$223	$375,732	$581,338	$587,076	-$5,738
Huntington Park	Mosaic Gardens at Huntington Park - 6337 Middleton	0	$146	$10,627	-$20,382	$17,046	-$37,428
South Gate	El Paseo Shopping Center - 8610 Garfield Ave	7	$170	$204,408	$265,755	$365,092	-$99,337

[7] The results of this study may differ from city or project specific fiscal impact analyses, which may be based on different assumptions and include data from different sources.

REGIONAL HOUSING NEEDS ASSESSMENT ANALYSIS

The sixth RHNA cycle is underway in the State of California. The Gateway Cities total RHNA allocation increased from 16,609 units in the fifth RHNA cycle, to 76,609 units in the sixth cycle. CA FWD and UrbanFootprint built on the case study analysis described above to estimate the net fiscal impact of achieving the RHNA housing goals for each Gateway City. The full results are shown in **Table 2** below.

As described in Table 2 below, the Gateway COG cities generally receive a low to almost no share of the property tax generated in their jurisdictions. As a result, absent reform, producing the volume of new housing required by RHNA, based on this analysis, will result in an over $36 million annual burden on city budgets across the Gateway COG. This model utilizes important assumptions about future sales tax loss, the number of persons per household and the property value of new units. The future is ultimately uncertain so many of those assumptions may or may not prove correct.

Note: The State Controller's numbers in Table 2 were used to provide a general order-of-magnitude calculation for policy purposes given that they provide an apples-to-apples comparison across the state.

To stress test those assumptions, a sensitivity analysis, shown in **Table 3** below, was also conducted as part of this study, in which several of the variables used in the model were adjusted or excluded. Seven out of the eight scenarios considered in this further analysis of the full build out of the RHNA in the Gateway Cities resulted in negative annual fiscal impact. The full city by city results of the sensitivity analysis are shown in Appendix 3.

TABLE 2: NET FISCAL IMPACT OF FULL BUILD OUT OF SIXTH RHNA CYCLE ON GATEWAY CITIES

City	Property Tax Share of General Fund (Revenue Trends and Housing Production)	Total Assigned Units (Sixth Cycle RHNA)	New Residents (Sixth Cycle RHNA)	City's Annual Combined Property Tax and MVLF Capture	City's Annual Sales Tax Generated by New Residents (21-23 City Budget)	5% Sales Tax Loss	City's Annual Net Revenue Collection (Property Tax MVLF + New Resident Sales Tax - Lost Sales Tax) (RHNA)	Annual Fiscal Impact NET COSTS FOR ALL NEW RESIDENTS	City's Annual Net Revenue after New Resident Costs (RHNA)
Artesia	5.7%	1,069	3,742	$1,504,083	$791,833	$182,454	$2,113,462	$2,174,652	-$61,190
Avalon	5.0%	27	43	$36,666	$22,129	$94,680	-$35,885	$113,931	-$149,816
Bell	3.7%	229	985	$290,143	$102,546	$185,778	$206,911	$363,481	-$156,570
Bell Gardens	6.4%	503	2,163	$732,368	$148,800	$144,278	$736,891	$1,521,499	-$784,608
Bellflower	6.2%	3,735	12,326	$5,385,870	$2,462,918	$831,080	$7,017,708	$5,314,791	$1,702,917
Cerritos	3.8%	1,908	6,296	$2,430,792	$4,613,869	$1,912,947	$5,131,714	$13,803,109	-$8,671,396
Commerce	3.8%	247	889	$314,678	$2,099,094	$1,547,039	$866,733	$3,933,493	-$3,066,760
Compton	6.7%	1,004	4,016	$1,482,908	$528,040	$664,516	$1,346,432	$1,933,670	-$587,238
Cudahy	3.3%	393	1965	$486,927	$138,685	$85,396	$540,216	$827,047	-$286,830
Downey	13.4%	6,525	22,185	$12,697,650	$6,682,251	$1,810,793	$17,569,108	$15,995,484	$1,573,624
Hawaiian Gardens	0.1%	331	1,390	$335,965	$103,417	$55,477	$383,905	$1,414,417	-$1,030,512
Huntington Park	3.5%	1,605	6,260	$2,011,065	$1,508,664	$702,836	$2,816,893	$3,218,669	-$401,776
Industry	2.9%	17	65	$20,587	$10,457,787	$2,077,700	$8,400,674	$11,082,585	-$2,681,911
La Mirada	10.7%	1,962	5,690	$3,447,234	$1,755,928	$778,480	$4,424,682	$4,155,642	$269,040
Lakewood	5.5%	3,922	12,158	$5,463,643	$2,488,464	$887,309	$7,064,500	$7,873,618	-$809,118
Lynwood	8.5%	1,558	7,323	$2,497,474	$1,592,805	$772,267	$3,318,012	$3,366,596	-$48,584
Maywood	4.5%	365	1,533	$482,895	$132,381	$115,723	$499,554	$670,270	-$170,717
Montebello	8.0%	5,186	19,188	$8,131,648	$6,341,806	$1,092,239	$13,381,215	$16,611,801	-$3,230,587
Norwalk	9.8%	5,034	19,129	$8,527,596	$2,795,957	$794,412	$10,529,141	$11,112,167	-$583,027
Paramount	5.4%	364	1,420	$504,504	$234,388	$468,140	$270,752	$1,529,712	-$1,258,960
Pico Rivera	6.1%	1,024	3,891	$1,469,440	$1,314,774	$1,108,714	$1,675,500	$2,385,577	-$710,077
Santa Fe Springs	3.4%	952	3,237	$1,186,192	$4,696,113	$1,436,015	$4,446,291	$8,968,157	-$4,521,866
Signal Hill	2.3%	517	1,241	$604,373	$2,328,106	$1,162,604	$1,769,874	$2,718,493	-$948,619
South Gate	4.9%	8,282	33,128	$11,188,982	$9,655,312	$1,430,460	$19,413,834	$18,633,275	$780,559
Vernon	6.4%	9	27	$13,104	$1,125,729	$719,333	$419,501	$4,243,833	-$3,824,333
Whittier	6.0%	3,439	10,661	$4,910,892	$3,536,089	$1,521,079	$6,925,901	$8,404,121	-$1,478,219
GCCOG Summary	Average Share **9.46%**	76,709	252,504	$133,481,208	$89,223,694	$29,978,164	$192,726,738	$229,573,086	-$36,846,347

CA FWD and UrbanFootprint conducted sensitivity analyses to stress test the net fiscal impact results of the RHNA analysis based on input from various Gateway Cities after multiple presentations of the study's results to members of the Gateway Cities and outside experts. The general conclusions of the study are affirmed under a variety of scenarios and assumptions.

TABLE 3: NET FISCAL SENSITIVITY ANALYSIS

Sensitivity Analysis Factors	Description of Sensitivity Analyses	Gateway Cities Subregion Net Result
RHNA Study Result	Result of the report model	-$36,846,347
Result using Census-Renter-Derived Persons Per Household	Replaces City's Housing Element Persons Per Household Average with 2021 Census ACS Renters Per Household Values for each city.	-$30,859,839
Result with Sales Tax Loss Removed	Removes assumed 5.26% Sales Tax Loss applied to the General Fund Revenue nets	-$6,868,184
Result using Census-Renter-Derived Persons Per Household - AND - No Sales Tax Loss modeling	**1st:** Replaces City Housing Element Persons Per Household Average with the Census' Renters Per Household Values for each city - AND - **2nd:** Removes assumed 5.26% Sales Tax Loss applied to the General Fund Revenue nets	-$881,675
Result using $500,000 Assessment Per Unit	Local feedback that $700k Assessment Value per unit was too high	-$74,983,835
Result using 2.5 People Per New Unit	Local city observations of Persons Per New Unit Households in Newly Developed Units	-$8,151,791
Result Using 2.5 Persons Per New Unit - AND - No Sales Tax Loss Modeling	**1st:** Replaces City Housing Element Persons Per Household with 2.5 in all new units - AND - **2nd:** Removes 5.26% Sales Tax Loss applied to the General Fund Revenue nets	$21,826,373
Result Using Kosmont / LA County Property Tax Shares	Los Angeles County Average Municipal Property Tax Rates incorporating tax equity allocation and redevelopment residual levels	-$24,327,509

POLICY RECOMMENDATIONS

Building new housing in the Gateway Cities provides an incredible opportunity for much-needed economic development in these disadvantaged, cost-burdened and overcrowded communities. Many cities are currently exploring opportunities to infill new housing on formerly commercial land. Yet state tax policy runs counter to the state's housing goals by resulting in local fiscal disincentives to housing production, including muting interest in emerging value capture tools meant to incentivize and support housing production.

The September 2020 policy brief "Does State Policy Discourage Housing Production?" published by the San Francisco Bay Area Planning and Urban Research Association and CA FWD showed the fiscal disincentive of a low property tax share to housing production in the Bay Area, particularly in cities at the very low end of property tax return. That conclusion is reaffirmed for the Gateway Cities by this study.

To address this fiscal disincentive, the state should revisit the property tax allocated to cities set by Assembly Bill 8 in 1978. This shift could be achieved by reforms such as the following:

1. **Direct legislative reform** of the property tax share of the 1% general levy,
2. **A swap of other tax revenue** regionally or with the state, or
3. **A state grant or other subsidy** to backfill the fiscal cost of housing development in low to no property tax allocation cities.

Specifically, this paper proposes that the state create a blue-ribbon commission to investigate these potential reforms on a statewide level and propose legislative solutions to this challenge.

FORMERS SEARS SITE, LOS CERRITOS CASE STUDY EXAMPLE

INTRODUCTION

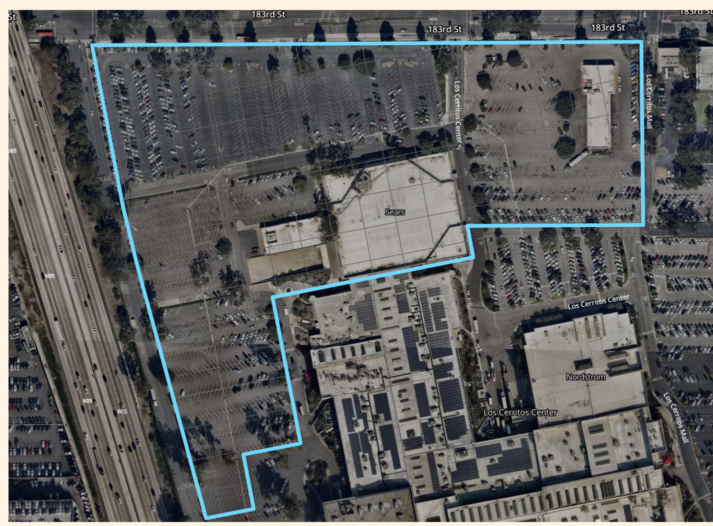
This case study describes possible scenarios for retail-to-residential land conversion in the City of Cerritos with particular focus on the potential fiscal impacts of this zoning conversion on local governments, including revenue that could be generated, costs incurred and the possible net fiscal impact on the city.

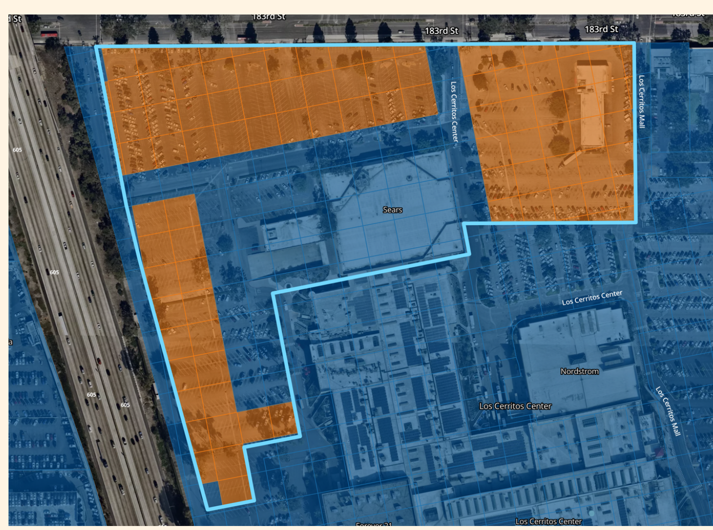
The Los Cerritos Center is a 19.5 acre site located at 11238 183rd Street in Cerritos, CA. The site is currently zoned Regional Commercial (CR) and consists of parking facilities for Los Cerritos Center, a former/vacant Sears department store and tire center. The Sears location at Los Cerritos Center permanently closed in January 2019 and the site owner has been evaluating the potential redevelopment of this area into a mixed-use project including retail, hotel and housing development to be integrated into the existing Los Cerritos Center mall campus.

The former Sears site at Los Cerritos Center is one of five sites identified for residential development by the city's 2021-2029 Housing Element that, altogether, could satisfy the required 1,908 units identified through the city's RHNA process.

Site: Former Sears Site, Los Cerritos Center

Potential New Housing Units:	300
Potential New Residents:	975
Net Fiscal Impact of Retail-to-Residential Rezoning:	**-$1,682,191**
Potential Revenue Generated for City:	$455,226
Potential Costs Incurred by City:	-$2,137,417





ANALYSIS AND FISCAL IMPACT

Assuming 25 dwellings units per acre, a retail-to-residential land conversion could create 300 new housing units and add approximately 975 new residents.

The table below shows the results of a fiscal analysis that illustrates new, annual revenue and costs generated by the potential retail-to-residential conversion:

NET FISCAL IMPACT		**-$1,682,191**
Revenue Generated		**$511,319**
	Property Tax Capture	$80,430
	Motor Vehicle License Fee Capture	$302,400
	New Sales Tax Generated	$128,489
Costs Incurred		**-$2,137,417**
	New Resident Costs	-$1,963,136
	Existing Sales Tax Loss	-$56,094

CONCLUSION

The analysis above finds that, under the current assumptions, the potential retail-to-residential zoning conversion at the former Sears site at Los Cerritos Center would result in a negative fiscal impact for the City of Cerritos. The findings of this case study demonstrate some of the challenges cities face when building new housing.

APPENDIX 2

NET FISCAL IMPACT METHODOLOGY

The following factors were included in the calculation of the net fiscal impact of housing development in this study:

The housing/people density expected at each site.

- Housing is modeled on dwelling units per acre at each level (25, 30, 33.75, 40.5, 60 dwelling units per acre).
- People density modeled after the people per household (PPHH) reported by each city in their housing elements.

The property and MVLF tax generated at each site based on the new units, adjusted to the property tax share percentages.

- Property tax allocation percentages were sourced from the State Controller's Office. Those percentages were calculated utilizing the state's 'By The Numbers' portal and used the city's general fund property tax revenue divided by the assessed valuation in the city.

Sales tax calculations.

- Direct capture of total sales tax minus 9.5% county-wide sales tax.
- *(Candidate Sites Only)* Assumed 0.5% city revenue generated (from the 9.5% going to state/county) based on evaluation of city financial documents (budgets, Annual Consolidated Financial Reports (ACFRs), bond official statements and continuing disclosures).
- The **sales tax loss** that results is based on the sales tax line item from the city's budget.
  - Assumed $75 in sales tax loss per square foot of retail lost.
- The **sales tax gain**: Modeling performed using the new residents at each candidate site and the observed FY21-23 city budget sales tax per capita.
  - Used Census 2021 5-year American Community Survey averages for median household income per city and calculated a 22.8% of new resident income spent on retail per United States Bureau of Labor Statistics.

The per capita cost of services for the new residents of the new housing units modeled based on general fund expenditures from the city's budget.

- That is an 80% variable share of total city expenses. The 80% variable share value is based on analysis of city budget expenditures. (Some of the city expenses are fixed, i.e., invariant to additional population.)

The net fiscal impact of the revenue and costs listed above.

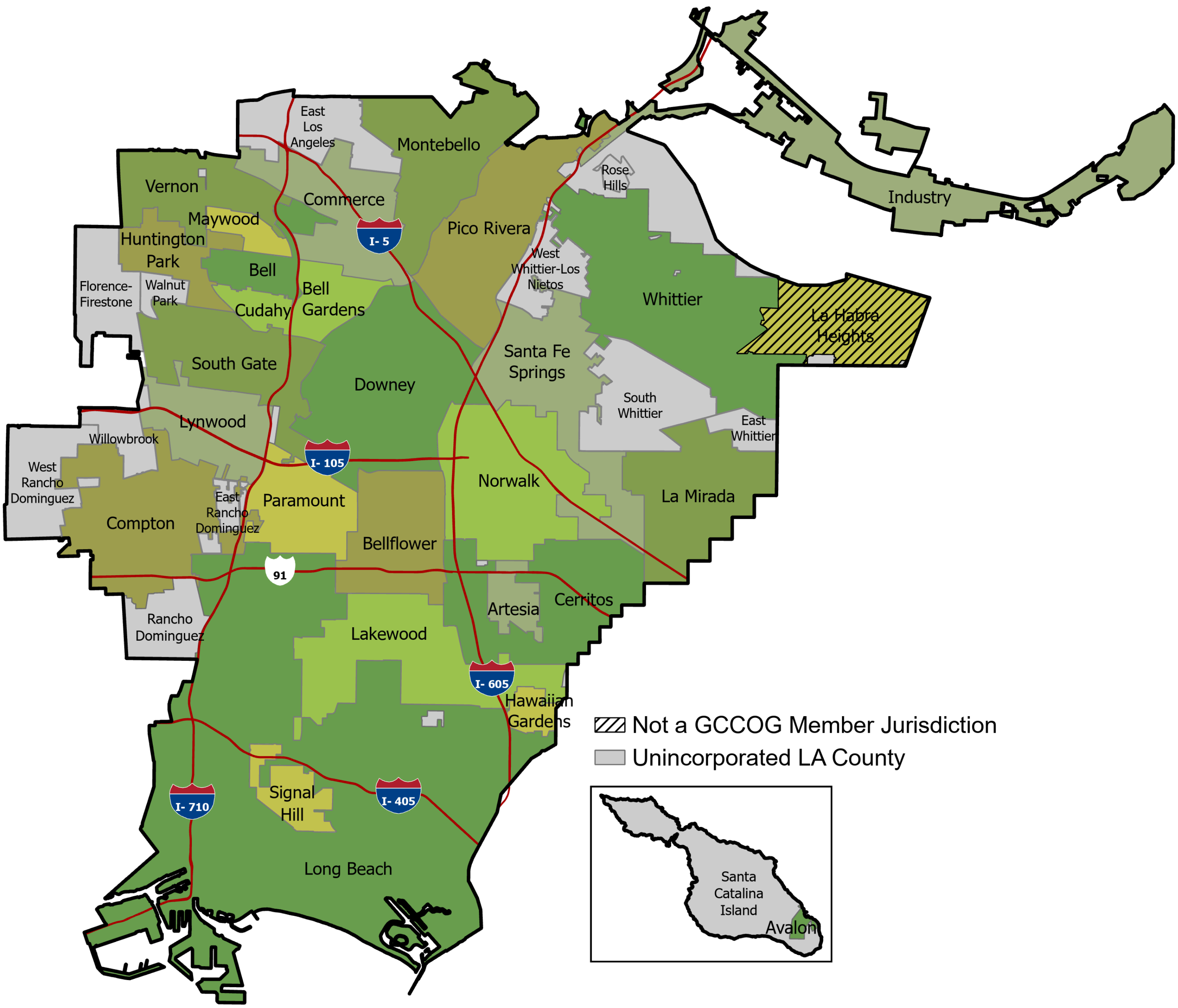
NET FISCAL IMPACT SENSITIVITY ANALYSIS – FULL CITY-BY-CITY RESULTS FOR RHNA BUILD OUT

City	Main RHNA Study Result	Result using Census-Renter-Derived Persons Per Household	Result with Sales Tax Loss Removed	Result using Census-Renter-Derived Persons Per HouseholdANDNo Sales Tax Loss modeling	Result using $500,000 Assessment Per Unit	Result using 2.5 People Per New Unit	Result Using 2.5 Persons Per New Unit AND No Sales Tax Loss Modeling	Result Using Los Angeles County Property Tax Shares
Artesia	-$61,190	-$191,570	$121,264	-$9,116	-$490,928	$333,901	$516,355	$9,899
Avalon	-$149,816	-$191,127	-$55,136	-$96,447	-$160,292	-$201,455	-$106,775	-$127,798
Bell	-$156,570	-$111,058	$29,208	$74,720	-$239,468	-$47,341	$138,437	-$129,800
Bell Gardens	-$784,608	-$701,608	-$640,331	-$557,330	-$993,856	-$209,990	-$65,713	-$686,020
Bellflower	$1,702,917	$1,815,264	$2,533,997	$2,646,344	$164,097	$2,394,280	$3,225,360	$1,823,184
Cerritos	-$10,800,463	-$8,894,165	-$6,758,448	-$6,981,218	-$9,365,908	-$6,443,701	-$4,530,754	-$8,270,716
Commerce	-$3,066,760	-$2,827,269	-$1,519,721	-$1,280,230	-$3,156,668	-$2,506,249	-$959,210	-$3,015,063
Compton	-$587,238	-$495,872	$77,278	$168,644	-$1,010,926	-$60,127	$604,389	-$352,503
Cudahy	-$286,830	-$143,651	-$201,434	-$58,255	-$425,952	$57,350	$142,746	-$196,322
Downey	$1,573,624	$2,285,812	$3,384,416	$4,096,605	-$2,054,276	$4,038,891	$5,849,684	$1,833,971
Hawaiian Gardens	-$1,030,512	-$986,812	-$975,035	-$931,335	-$1,126,502	-$499,870	-$444,392	-$903,077
Huntington Park	-$401,776	-$340,391	$301,060	$362,445	-$976,366	$212,072	$914,908	$30,771
Industry	-$2,681,911	-$2,675,335	-$604,211	-$597,635	-$2,687,793	-$2,468,165	-$390,465	-$2,675,914
La Mirada	$269,040	$351,789	$1,047,520	$1,130,269	-$715,884	$600,035	$1,378,515	-$278,946
Lakewood	-$1,565,511	-$1,438,530	-$1,097,371	-$970,390	-$3,126,467	-$295,695	$172,445	-$715,686
Lynwood	-$48,584	$234,467	$723,683	$1,006,734	-$762,148	$781,701	$1,553,968	$256,784
Maywood	-$170,717	-$141,261	-$54,994	-$25,538	-$308,687	$47,000	$162,723	-$9,496
Montebello	-$3,230,587	-$2,064,803	-$2,138,348	-$972,564	-$5,553,915	$100,223	$1,192,462	-$2,555,370
Norwalk	-$583,027	-$320,410	$211,385	$474,003	-$3,019,483	$2,261,993	$3,056,405	-$1,700,071
Paramount	-$1,258,960	-$1,169,284	-$790,820	-$701,144	-$1,403,104	-$793,972	-$325,832	-$1,225,326
Pico Rivera	-$710,077	-$586,089	$398,637	$522,624	-$1,129,917	-$343,750	$764,964	-$669,220
Santa Fe Springs	-$4,521,866	-$4,232,875	-$3,085,851	-$2,796,860	-$4,860,778	-$3,391,031	-$1,955,016	-$4,331,942
Signal Hill	-$948,619	-$1,038,082	$213,986	$124,522	-$1,121,297	-$964,885	$197,720	-$786,487
South Gate	$780,559	$1,723,245	$2,211,019	$3,153,705	-$2,416,293	$4,147,295	$5,577,755	$1,505,234
Vernon	-$3,824,333	-$4,593,465	-$3,105,000	-$3,874,132	-$3,828,077	-$3,304,649	-$2,585,316	-$3,823,778
Whittier	-$1,478,219	-$1,211,263	$42,860	$309,816	-$2,881,331	-$536,020	$985,060	-$1,196,565
GCCOG Summary	-$37,602,741	-$31,593,479	-$8,043,746	-$2,034,485	-$75,740,229	-$8,680,656	$20,878,338	-$24,327,509

APPENDIX 4

GATEWAY CITIES
COUNCIL OF GOVERNMENTS

GATEWAY CITIES COUNCIL OF GOVERNMENTS MAP



APPENDIX 5

POLICY PRINCIPLES FROM 2021 WHITEPAPER[7]

"SPUR and California Forward have developed a draft set of principles to guide the development of California state tax reform. We then apply these principles to their impact on the production of housing.

1. The tax system should be fair. Cities should be treated in an equitable manner and not receive certain property tax allocation shares based on legacy percentages. The system should support cities whose public policy goals align with regional and state values, including allowing sufficient housing, creating resources for affordable housing and discouraging sprawl development. Lastly, the tax system should not unduly subsidize long-standing homeowners at the expense of newcomers.

2. The tax system should provide adequate revenues. The passage of Prop. 13 in 1978 created a drop in state revenues of roughly 60 percent. While local revenue in California has recovered since that point, city and county tax revenue per person remains lower than it was before the passage of Prop. 13.[8] Cities have responded to Prop. 13's limitations on property tax by changing their zoning to encourage uses they deem to be revenue-creating and passing new sales, hotel and utility taxes. Cities also began taxing new development, including new housing development, in the form of fees and requirements. Any future changes to the tax system should provide sufficient revenues for the activities of local government, so that zoning for rateables and taxing housing construction are not incentivized.

3. The tax system should not discourage housing production. As outlined above, local governments that receive a greater share of property taxes are more likely to produce housing than those that receive a smaller share. Cities that rely more on sales tax revenue are less likely to produce housing. At the same time, the cap on assessed value as part of Prop. 13 means that if a parcel of vacant land has been owned for a long period of time, an owner does not have an incentive to put that land into active use, because the tax basis is so low. The tax system should incentivize the production of housing, not discourage it.

4. The tax system should be simple and clear. The current state tax system is so complex that very few people understand it and tradeoffs are not clear to policymakers.[9] Jurisdictions could make better decisions if the property tax system were transparent and clear so the tradeoffs in the system could be made explicit."

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[7] CA FWD and SPUR whitepaper, "Does State Tax Policy Discourage Housing Production?"

[8] California Legislative Analyst's Office: What Happened to Local Government Revenues After Proposition 13?

[9] California City Finance: Reforming California Municipal Finance and the State-Local Relationship - a City Perspective