



Urban Habitat Reports

Research • Analysis • Action

CALIFORNIA'S 2006 INFRASTRUCTURE BONDS

TRANSPORTATION (1B) AND HOUSING (1C)

ECONOMY, ENVIRONMENT AND EQUITY



**Prop 1B:
Sprawl & Pollution**



**Prop 1C:
Affordable Housing**

(Page left blank intentionally)

Introduction and Research

The infrastructure bond measures voters will be asked to consider this November will directly impact our quality of life and shape equity in the state for years to come. The right investments can enhance equal opportunities for California's low-income communities and broaden economic prosperity for all residents. However, the wrong investments will exacerbate current patterns of economic disparity, environmental degradation, and class and racial segregation.

California State Law requires the intent of infrastructure plans to “promote equity, strengthen the economy, protect the environment, and promote public health and safety.”¹ Urban Habitat believes that when discussing state-sponsored infrastructure plans, we must also take into account these principles:

- Disparate environmental and social impacts
- Fair and equitable repayment of bonds
- Community participation in the decision-making process

Urban Habitat's analysis finds that Propositions 1B (Transportation) and 1C (Housing) will have a powerful impact on all of California's residents, especially low-income communities of color. An examination of the historical interrelation between transportation and housing policies shows that the state's infrastructure investments and policies have resulted in the sprawling development that California is known for today.

With the erosion of the state's tax base, debt financing has become the only viable means for sustainable development. While a General Obligation bond is an appropriate mechanism for the type of investments in Proposition 1C (housing), it is regressive and inequitable for the transportation investments in Proposition 1B. Though we have concerns about the intentional lack of community involvement and transparency in the creation of this year's propositions, Urban Habitat has taken a formal position opposing 1B (Transportation) and supporting 1C (Housing). The negative environmental and health impacts caused by increased highway construction and the use of General Funds for repayment of Proposition 1B will increase social inequalities and fail to meet the standards of California Law. Proposition 1C will strengthen communities by providing affordable housing for the elderly and families with lower-wage workforce jobs which spurs local economies and enhances revenues, paying for the investment itself.

The right investments can enhance equal opportunities for California's low-income communities and broaden economic prosperity for all residents.

Historical Impact of Transportation and Housing Infrastructure Investment

In the post World War II period, highway expansion and housing policies shaped the pattern of economic opportunity still with us today. By facilitating movement between distant locations, highways have spurred economic and population growth beyond the boundaries of central cities. Federal housing policies have subsidized the suburban fringe instead of revitaliz-



ing the inner city and many analysts have concluded that America's sprawling suburban development pattern has worsened social inequities.

"Exclusion of the poor from the gated enclaves of the wealthy may be the most obvious inequity of suburbia, but it is hardly the most significant." The segregation of the 'haves' and 'have-nots' has concentrated poverty in our inner cities. "Suburban expansion was largely government-driven, and completely lacking in incentives to integrate different housing types or incomes among the new construction." The government "provided the means of escape from the city—highways and cheap home loans—while neglecting to allocate those means fairly. The resulting social stratification of suburban development—compounded by white flight—continues today." Other analysts emphasize indirect pricing and subsidies for cars, or American cultural value on a single family house with a garage. The result is the same: exploding sprawl and decaying cities.²

The costs of improving port facilities can be offset by increasing shipper container fees or a new highway can collect tolls to pay for construction and maintenance costs.

These policies have created an imbalance of employment opportunities. Job growth continues to decline in core urban areas populated with low-income communities of color while higher-income white suburban communities continue to expand their job markets.

State and local tax policies have also redirected economic activity away from the state's urban areas. Faced with limited property tax revenues after the passage of Proposition 13 in 1978, many California cities have adopted land-use policies designed to promote retail in order to raise local sales tax revenues which make hous-

ing and industrial development within cities more difficult and costly. The resulting exurban sprawl has increased distances between jobs and housing. Further magnifying the problem, Proposition 218 (passed in 1996) significantly changed local government finance by requiring a 2/3 vote to pass local Revenue bonds for each of California's taxing authorities.³ Without a strong tax base, debt financing is the only politically viable means to build infrastructure to keep up with the state's growing population and economy.

Equitable Financing: General Obligation bond vs. Revenue bond

Bonds are loans to local or state governments from wealthy lenders and institutions. Bonds are differentiated by how the government intends to collect the money to repay the debt. General Obligation bonds are paid back with interest from the State's general fund, the funding source intended to be used for education, healthcare, public safety and family services that benefit everyone, especially those with low income.

Revenue bonds are repayable from specified revenues generated by the project, commonly called 'user fees.' For example, the costs of improving port facilities can be offset by increasing shipper container fees or a new highway can collect tolls to pay for construction and maintenance costs.

General Obligation bonds can be an inequitable and regressive approach to financing public expenditure because the costs are spread across the population, though the benefits may not be shared equally. When considering infrastructure programs that benefit a specific vested interest with the ability to pay, we must assert that a Revenue bond is the appropriate measure, and those who benefit should pay. General Obligation bonds are an appropriate mechanism for infrastructure improvements such as emergency shelters and housing for low-income families who otherwise would be unable to pay for these necessities.

Both the Transportation and Housing bonds are General Obligation bonds; however, the Transportation bond (1B) primarily benefits those who have a vehicle and utilize highways. There are mechanisms, such as user fees, through which the beneficiaries could pay for the construction costs of the transportation projects. The Housing bond (1C), however, creates emergency shelters for those in need who could not afford user fees and stimulates the economy by creating affordable housing for members of the workforce while creating a more equitable society.

Both the Transportation and Housing bonds are General Obligation bonds; however, the Transportation bond (1B) primarily benefits those who have a vehicle and utilize highways.

Legislative Process—By Invitation Only

In order to pass this current set of General Obligation bonds and reach the required 2/3 vote in the state legislature, a number of compromises were made. After an omnibus bond bill failed to meet the deadline for the June Primary Ballot, the legislative leaders of both houses and parties entered into intense private negotiations. Lobbying efforts were by invitation only and many groups representing public interest issues such as environment, land use planning, environmental justice and public health were intentionally excluded from the process. In fact, most legislators themselves were kept out of the process until compromise agreements were sent to the floor for last minute approval.

Infrastructure Investment and Land-Use Management—Equity and Smart Growth

From Urban Habitat’s perspective, the Transportation bond (1B) and Housing bond (1C) are closely related. If they should pass, their implementation will greatly impact development issues important to low-income communities throughout the Bay Area and the state. The remainder of this analysis brings into focus the inter-relation of Propositions 1B and 1C and evaluates both on the basis of equity and the social and environmental impacts of each.



Proposition Analysis

Proposition 1B - Transportation

Highway Safety, Traffic Reduction, Air Quality, Port Security Bond Act of 2006: A \$19.9 billion General Obligation bond to pay for road repairs and expansions, bridge repairs, expansions to public transportation and improvements to port security.

Over the past few decades California's roadways have fallen into disrepair as the federal and state governments shift the burden of maintenance to local governments. At the same time faced with increased operational costs and budget constraints, public transit systems across the state— especially buses serving the transit dependent inner-city poor— have increased fares while cutting back on services.

At \$19.9 billion, proposition 1B is the most expensive General Obligation bond in the history of California. This huge expenditure dwarfs any similar bond, even when adjusted for inflation.⁴

Of the \$19.9 billion, about 40 percent is specifically guaranteed for road construction, maintenance and trade corridor expansion programs...[up to] 20 percent [more] may also be used for roadways, depending on local agencies.

About 20 percent of the proposed transportation bond will be available for modernizing and enhancing public transit. \$3.6 billion could be used for improvements to bus, commuter rail, and light rail systems while \$400 million would be available for an intercity rail. By law, bond money cannot be spent on operational costs such as restoring services to lines that have been reduced or cancelled. The money can only be used for capital outlay, such as construction projects and equipment purchases, but the greatest need for transit agencies at this time are operating funds, which are not provided through this bond.

Approximately 11 percent of the bond will fund air quality improvements, transit and port security.

These include: \$1 billion for security and safety enhancements on public transit systems; \$1 billion to help reduce the emission of diesel fumes and other pollutants along trade corridors; \$200 million to retrofit or replace older school buses with the highest diesel pollution risk.

Of the \$19.9 billion, about 40 percent is specifically guaranteed for road construction, maintenance and trade corridor expansion programs including \$4.5 billion for improvements to congested state highway corridors; \$2 billion for trade corridor improvements and \$1 billion for improvement to State Route 99.

The remaining 20 percent may also be used for roadways, depending on local agencies. These include: \$2 billion for the State Transportation Improvement Program (STIP); \$1 billion for city transportation priorities; and \$1 billion for a partnership program to match county investments.

Since such a large portion of Proposition 1B's funds go to roadway construction and improvement, a Revenue bond backed by user fees such as a fuel tax, vehicle license fees, weight user-fees, and container fees would be more equitable since those who benefit would pay.

Last year, 2,400 premature deaths and over 60,000 asthma attacks statewide were caused by emissions from trucks, trains, ships and other cargo-handling equipment. Work and school days lost due to pollution-related sickness totaled 1.46 million.⁵ With increased transportation corridors and port expansion, out-of-state shipping companies will benefit while poor residents in nearby communities will suffer the consequences of increased pollution. If the shipping companies benefit financially while residents become sick or die, expecting Californians to pay for Proposition 1B adds insult to injury.

Building more roadways is only a temporary solution to the problem of traffic congestion because the additional roadway space invites new vehicle trips and will eventually become congested. Moreover, it fosters the urban sprawl that initially caused congestion. The sprawling suburban model, organized around the automobile, is an inefficient use of public funds; new interstate highways cost millions per mile to build and even more to operate and maintain each year. The infrastructure necessary to support sprawl is much more expensive than the infrastructure necessary to support compact development. Municipal budgets are strained by road maintenance costs and they need to generate revenue from user fees as expanded roadways age and require repaving rather than diverting funds from other essential programs. When taxes for road projects are included, the typical American family spends four times as much on transportation as their European counterpart, even though gasoline costs four times as much in Europe.⁶ Simply stated, building more highways is an inefficient and unsustainable solution.

If the shipping companies benefit financially while residents become sick or die, expecting Californians to pay for Proposition 1B adds insult to injury.

With the wasteful investments in highways and suburban sprawl, low-income communities residing in densely populated urban neighborhoods and older suburbs continue to experience patterns of disinvestment. Low-income, youth, and elder transit-dependent residents suffer most from continuing a pattern of infrastructure investments that favors the creation of highways, increasing gas consumption, and sprawling development.

Equitable transportation systems that serve people who are primarily or exclusively reliant on public transit contribute to the health of communities and regions. Low-income parents, children and the elderly need affordable, safe, and dependable modes of transportation to get from home to work, schools, social facilities, and commercial and social services. An efficient transportation system benefits everyone by enhancing economic activity, reducing private transportation's environmental impacts, diversifying and expanding employment opportunities and providing greater mobility between communities and families.



The Transportation bond (1B) fails to adequately address equity issues as required by California Law and does not meet Urban Habitat's principles, as described in the introduction of this paper. With such a large part of the bond money being spent on road construction to benefit car-owning individuals and shipping businesses rather than communities as a whole, there is a disconcerting lack of equity. In the long-term, the construction of highways

does little to strengthen the economy and in fact may have a negative effect when commuting populations move further into the exurbs. Port expansions and increased transport corridors may generate more business at the ports, but without an increase in shipping container fees, the government will take on \$19.9 billion in debt while paying interest out of the taxpayer's pockets.

Port expansions and increased transport corridors may generate more business at the ports, but without an increase in shipping container fees, the government will take on \$19.9 billion in debt while paying interest out of the taxpayer's pockets.

Proposition 1B also fails to address the environmental and social impact in relation to race and class and will negatively impact the health of the low-income, communities of color near these projects. The failure of 1B to recognize the importance of equitable repayment by those who benefit most from the project, especially when a

potential revenue stream through user fees is so easily obtainable, creates increased economic disparities and forces all Californians to pay for projects from which only few will benefit. The legislature's refusal to allow access and input from the impacted communities and the organizations working on their behalf poses serious problems in fairly evaluating the impact of these policies.

Proposition 1C - Housing

Housing and Emergency Shelter Trust Fund Act of 2006: A \$2.85 billion bond issue to pay for affordable-housing assistance, supportive housing services and housing for farm workers.

The production of lower-priced housing in California is failing to meet demand, especially in areas with growing job markets. The growing imbalance between housing and employment inflates costs, stifles economic growth, extends commute times, harms the environment and degrades everyone's quality of life. As housing costs in many parts of California continue to increase rapidly, affordable housing becomes a growing need for more of the population.

Despite the increased need for affordable housing, federal housing assistance programs continue to be cut. They no longer come close to meeting housing needs of California's lower-income workers and their families, the disabled or the elderly. Critical housing challenges threaten our economy and the stability and security of our communities.

According to the U.S. Department of Housing and Urban Development, "Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care."⁷ In

California, the Fair Market Rent for a two bedroom unit is \$1,104 a month which means the average worker must earn \$23 an hour. Using this same formula, a family must make at least \$166,000 a year to buy the average single family home but with an Area Median Income of only \$64,422 most families are falling far behind.⁸ An extremely low-income household (earning \$19,327, 30% the Area Median Income) can afford monthly rent up to only \$483.

Housing bonds have a proven track record of being smart and responsible investments and Proposition 1C will continue in this tradition. By 2007, a previous \$2.1 billion bond (Proposition 46) will have supported as many as 276,000 jobs while producing 40,000 new units of affordable rental housing for families and 23,000 emergency housing beds throughout the state.⁹ As 2002's Proposition 46 reaches its completion, these affordable and supportive housing funds approved by voters will be replenished by Proposition 1C.

Beyond affordable housing, roughly half of Proposition 1C funds are earmarked to benefit Smart Growth Programs including regional planning that promotes infill incentives and Transit-Oriented Developments. These funds can meet environmental goals by creating housing located near public transit in compact, multi-use developments. By promoting affordable housing close to effective public transportation, California can meet labor and business needs of workforce housing and achieve social equity goals by producing affordable housing and diversifying household incomes in neighborhoods.¹⁰

Because the construction of affordable housing will benefit local businesses, schools, and other aspects of the community, a General Obligation bond is an appropriate method of funding. Rental fees will generate revenue for upkeep and maintenance, but the initial construction costs must be viewed as an investment in neighborhoods and community. As such, it is fair to evenly distribute the cost across the population.

Of all five bond measures on the November ballot, Proposition 1C has the lowest price tag, yet the \$2.8 billion of funding has great potential to create a more equitable society with low environmental impact and similar proposals have a history of success. By promoting affordable housing with a focus on Smart Growth Programs and Transportation Oriented Development, Proposition 1C will have a positive impact on low and middle income communities. By promoting affordable housing near job markets, economic growth is spurred by an increased population of local patrons and potential employees. This will create a stronger local economy which will be able to offset the costs associated with the bond.

In California, the Fair Market Rent for a two bedroom unit is \$1,104 a month which means the average worker must earn \$23 an hour ... a family must make at least \$166,000 a year to buy the average single family home.



Call to Action

To sustain and improve infrastructure, California needs tax and fiscal policy reforms to balance a budget that meets the state's needs by investing in its people, resources, and infrastructure in order to develop a more just and equitable society.

Forgoing sprawl by refocusing investment on central cities through Smart Growth programs, infill, and Transportation Oriented Development strengthens communities in a cost-effective manner and promotes broad economic growth, which will provide potential tax bases to offset the initial investments. By limiting the use of General Obligation bonds to projects which benefit the community as a whole, rather than large corporations, we can better balance the budget while making wise investments in communities.

While Urban Habitat supports the increased investment in public transportation proposed by Proposition 1B (Transportation bond), the restraints limiting the investments to non-operational costs fail to address the critical needs of transit dependent residents. The negative health impacts on low-income communities and environmental degradation from increased highway systems and port expansion are unacceptable. Concern over this issue is compounded when considering the discrepancy between those that benefit from these projects and those who will pay for it- local residents who will suffer most will be forced to foot the bill while non-local corporations will increase profits. It is inappropriate to ask every California resident to pay for these programs when potential revenue streams are available in the form of fuel tax, vehicle license fees, weight user-fees, container fees or tolls. As a stakeholder and representative of California's communities, we oppose Proposition 1B and urge all citizens to vote 'No.'

Urban Habitat supports Proposition 1C (Housing bond) because of its potential to create stronger communities by promoting mixed-use Smart Growth Programs and Transportation Oriented Development. Individuals will benefit from affordable housing while newly revitalized neighborhoods will encourage new businesses and spur job growth. The proven success of these types of bonds is a strong indicator of Proposition 1C's potential. The continuation of 2002's Proposition 46 programs is essential to building better communities. Now is the time for our diverse communities to join in common cause to assure California's future and invest in quality infrastructure to form a legacy of equitable and sustainable development patterns. By investing wisely in affordable housing, California households of various income levels will all benefit. Linking mixed-income affordable housing with Transit Oriented Development can foster vibrant and sustainable communities and Proposition 1C adequately addresses these issues and Urban Habitat urges all citizens to vote 'Yes.'

To achieve the promise of equal opportunity and benefits for all residents, California voters and elected officials must make wise infrastructure investment choices supported by a transparent system of fair taxation with fiscal accountability. Whether these bond measures pass or fail in the November election, Urban Habitat urges policy makers to work with environmental and economic justice advocates to develop a course of action redirecting transportation and land-use planning assuring the state's future prosperity.

Works Cited

- 1 California 2025: Taking on the Future. Ellen Hanak and Mark Baldassare (editors), Mark Baldassare, Elisa Barbour, Jonathan Cohen, Shelley de Alth, Ellen Hanak, Hans P. Johnson, Paul G. Lewis, David Neumark, Manuel Pastor, Jr., Deborah Reed, and Kim Rueben (contributors). Public Policy Institute of California. 2005.
- 2 Suburban Nation: The rise of sprawl and the decline of the American Dream. Duany, Andre, Elizabeth Plater-Zyberk, and Jeff Speck. North Point Press. 2000. pp 128-130
- 3 Prop 39 (passed in 2000) lowered the requirement to pass a school bond to 55% majority.
- 4 Chart K-7 Summary Chart General Obligation Ballot Proposals. California Department of Finance. Accessed September 19, 2006.
- 5 Daily Breeze.com. April 21, 2006.
- 6 Suburban Nation: The rise of sprawl and the decline of the American Dream. Duany, Andre, Elizabeth Plater-Zyberk, and Jeff Speck. North Point Press. 2000.
- 7 Affordable Housing. U.S. Department of Housing and Urban Development. Aug 2006
- 8 California's Deepening Housing Crisis. CA Dept of Housing & Community Development. Feb 2006
- 9 Expanding Opportunity: New Resources to Meet California's Housing Needs. PolicyLink report for housing CA. Executive summary winter. 2005
- 10 Ibid.

