Financing Community Resilience

Claudia Lima
Director of Community Lending and Investing
October 1, 2018
Proposition 13 - 1978

- Officially named the People’s Initiative to Limit Property Taxation
  - Reduces property tax rates on homes, businesses and farms
  - Prior, some properties were reassessed 50% to 100% in just one year, thus increasing the owner’s property tax accordingly
  - Amended the state constitution
  - Protected real estate owners from sharp increases in property tax bills
- Consequences
  - Californians is still one of the highest taxed in the nation
  - Low property taxes have been offset by higher sales, gas and income taxes
  - Minimal incentive for local governments to build new residential developments, preferring commercial or industrial, thus creating a shortage of housing
  - There is a disincentive for homeowners to move thus creating a shortage of homes for sale because of low home ownership turnover
  - Revenues for schools and other public benefits have been reduced – thus hurting low and moderate income families most
  - A fix is to eliminate Proposition 13 for Commercial parcels – but this will then hurt small businesses
Dissolution of Community Redevelopment Agencies - 2012

- Dissolution
  - Transferred redevelopment agency assets, powers and responsibilities to “successor agencies”
  - Honor “enforceable obligations” of former redevelopment agencies via “successor agencies”
  - Successor agencies are responsible of timely payment of enforceable obligations
  - Part of the 2011 Budget Act, done to protect funding for core public services at the local level
  - Eliminated over 400 Redevelopment agencies in the state
  - After paying for enforceable obligations, any amounts are allocated to cities, counties, special districts and school/community college districts

- Consequences
  - Reduced needed programs for commercial corridors, such as façade improvements for small businesses, site remediation of blighted parcels, economic development and affordable housing
  - Redevelopment agencies were required to spend 20% of the tax increment income on housing for low and moderate income residents
  - Estimated That the Low and Moderate Income Housing Fund to be used for affordable housing collectively amounted to $1 billion per year by 2010
  - Since RDAs were an important source of soft dollars for affordable housing, developers have to look for a greater number of sources to make affordable housing pencil and have changed to unit mix to ‘chase’ resources that are available
Economic Crisis of 2008

- Started in 2006
  - Started with a crisis in subprime mortgages and irresponsible lending that developed into a full-blown international banking crisis – which then became the Great Recession
  - After the meltdown in September 2008, the economy went from losing 170,000 jobs a month, to 700,000 jobs the last two months of the year
  - Unemployment rate climbed quickly to 10% by October 2009, not counting discouraged workers
  - Housing prices fell by 31.8%, more than the price plunge during the Depression of 1929
  - By the end of 2008, economic growth posted the biggest drop in 50 years

- Consequences
  - Created one of the worst credit crunches in history…lending almost came to a halt
  - Many homeowners decided to walk, because of underwater mortgages
  - Small business closed and we saw a rise in vacancies in commercial corridors
  - Prompted cutbacks at many companies, many lost their jobs
  - While mortgage lending has recuperated, lending for small businesses has not
Wealth Gap

- Equity in the home is the greatest source of wealth for middle income households
  - Because of the great recession, the typical family lost 40% of their wealth between 2007 and 2013.
  - In three years, the equity held by homeowners was cut in half
  - Jobs are back, but the workforce is smaller.
  - Share of Americans who are working or want to work had decreased from 67.3% in 2000 to 62.5% in 2015 – more discouraged workers
  - Net worth is stratified by race - Black households hold one-tenth the assets of white households

Consequences

- Wages have been stagnant for over 10 years, after inflation – even if hiring has picked up, paychecks remain depressed
- Home prices are rising, but fewer people can afford to buy – stagnant wages
- The wealth created by stocks benefits a few – the more affluent
- The wealth created by stocks vs home equity is a large contributor to the wealth gap that exists
- Depressed home values from the crisis enabled a lot of investors to purchase homes and commercial businesses - owners that do not live or shop or interact in the community
Claudia Lima
Director of Community Lending and Investing
CIT Bank, N.A.
(626) 535-5748
Claudia.Lima@cit.com