



May 4, 2020

Re: Agenda Item 8A for May 5, 2020 City Council Meeting

Dear Mayor McKeown, Mayor Pro Tem O'Day, and Councilmembers Davis, Himmelrich, Jara, Morena and Winterer:

By this letter, Santa Monicans for Renters' Rights ("SMRR") provides its comments (as adopted by a vote of its Steering Committee) regarding both the budget cuts proposed by City Staff in light of the COVID-19 crisis, and Staff's preliminary plans for economic recovery from that crisis, as reflected in the Staff Report for this agenda item and Attachment A thereto. SMRR appreciates very much that the City, the Staff and you as Mayor, Mayor Pro Tem and Councilmembers are facing new pressures and challenges during the COVID-19 crisis that are wildly different from any that the City, its leadership, its residents and its businesses have faced previously. There is no playbook written for this kind of crisis. We want to thank each of you for your efforts to seek fair, effective and efficient solutions to these challenges, and pledge to assist you in doing so in every way we can.

SMRR also wants to thank Staff for the hard work it put into the Report. However, based on the information provided and the limited time available for review, SMRR believes that the City Council should reject a number of the specific recommendations made; namely, (1) indefinite suspension of further enrollment in the Preserving Our Diversity program, (2) the reduction in support to the Legal Aid Foundation of Los Angeles, (3) the apparently permanent transfer of the Architectural Review Board's functions to Staff, and (4) the apparent prohibition on meetings of the Housing Commission prior to economic recovery. More fundamentally, SMRR believes that the City Council should work to place an equitable gross receipts type tax measure on the November 2020 ballot targeting larger businesses that do not currently contribute a fair share to City revenues in order to provide the voters with the opportunity both to more promptly restore essential services and associated personnel, and to provide greater resiliency to the City's budget on a going forward basis. The City Council also should ensure meaningful resident participation in the economic recovery planning process, and that those efforts are focused on economic activity that most benefit the City and its residents rather than efforts to undo prior development policy decisions. This letter addresses these issues in reverse order.

I. PLANNING FOR ECONOMIC RECOVERY

A. City Council Should Place An Equitable Gross Receipts Type Tax Increase On The November 2020 Ballot

SMRR recognizes that, given the extent of revenue losses and the failure of the federal and State governments to provide compensating funding, the City has no choice in the short run other than to take painful measures to balance the City's budget. But SMRR believes that working together we can create new choices for the near-midterm, midterm and long term, as we explain below.

In our view, the impact of the COVID-19 pandemic on business activity in the City is just one cause of this crisis. There is a prior cause that has made our City particularly vulnerable to this crisis.

That prior cause is that the City of Santa Monica's budget has long excessively relied upon revenue generated by the hotel bed taxes and retail sales taxes. The industries that generate these taxes – hotels, restaurants, retail shopping – are heavily reliant upon visitors and social gathering. As a result they were the most vulnerable and are the most impacted enterprises during the COVID-19 pandemic.

Could it have been different? Could it be different in the future? Yes, both in the short term and in the long term, it is important that the City diversify its revenue base both to more promptly restore essential City services and associated personnel, and to remedy this vulnerability.

We suggest Santa Monica can learn a lesson from San Francisco. Santa Monica generates over **34%** of its General Fund revenue from sales taxes and transient occupancy taxes. The impact of the crisis on the hotel, restaurant, and retail industries is a primary source of the City's current budget crisis. San Francisco generates less than 10% of its General Fund revenue from sales and bed taxes. It's revenue base is more diverse, relying also on a set of business license and gross receipts taxes.

San Francisco's 2019-20 budget projected that more than **17%** of its revenue would come from various business license and gross receipts taxes (a figure that does not yet include two 2018 voter initiatives that will increase taxes on commercial rents and gross receipts).

San Francisco has greater flexibility because San Francisco voters have approved a set of taxes on businesses other than those that generate sales and bed taxes, that operate in and benefit enormously from their presence in that City.

In comparison, Santa Monica generates very little revenue from such businesses even though they equally benefit for the quality of our community. Santa Monica has a very low business license fee – the rate ranges from a .125% to a .5% tax rate. This tax only generates about **7.7%** of our general fund revenue.

In San Francisco there is a payroll tax, a business registration fee, an administrative office tax, and a gross receipts tax that together generate over 17% of the City's revenue. In November 2018, SF voters approved two voter initiatives to place a tax on commercial rents to fund child development services and to increase the gross receipts tax on those businesses with revenues over \$50 M per year to raise over \$300 M/year for homeless services and affordable housing.

In Santa Monica, the businesses that pay our very low business taxes are those that have, for the most part, been much less harmed by the shut down in response to the pandemic, such enterprises as commercial office parks and their tenants - banks, digital firms, studio offices, law firms, biomedical firms, etc., companies with a professional highly paid workforce that can more readily work on line and Zoom around the world, state, and region.

In some cases, these enterprises also operate in the office parks that generate some of our worst traffic congestion.

We at SMRR believe that before we assume we have to dramatically cut services and layoff a huge share of the City workforce, let's consider identifying and winning new revenue sources.

An increase in the City's Business License Tax - with exemptions for those businesses most damaged by the COVID-19 crisis like hotels, restaurants, and many retail stores - can not only preserve vital City services by filling a gaping hole in our City's budget, and perhaps save many jobs, it can also diversify the City's revenue base for the future.

Yes, this means the City of Santa Monica would have to ask voters to approve such a measure at this November's election. Yes, this will involve convening a coalition in support and mounting a campaign. We believe a successful coalition and campaign can be mounted, despite our difficult circumstances. Yes, a campaign faces many uncertainties. But failing to even attempt such an effort has but one certainty – calamity for our City. You must try.

We know there are others – for example, SM Forward, who have a different view. They want the City to adopt their prescription for getting SM out of a COVID induced fiscal coma by relying upon new development. Yet the developments SM Forward wants to promote are primarily hotels and apartment buildings. Rather than diversifying our tax base this simply expands our reliance on bed and sales taxes, or builds market rate residential developments that generate little tax revenue.

In addition, even if the City of SM was willing to risk a voter revolt by letting market rate and commercial development run loose and wild, it is irrelevant to the current crisis. If the proposed major projects were approved today they would be unlikely to be operating and generating revenue within the next two fiscal years.

After that, the damage will have been done.

Rather than creating more stable and sustainable revenue sources, SM Forward's proposal continues the City's dependence on the volatile sources that have let us down during this crisis.

We believe that there is a strategy for the near term, a strategy that can bring new revenue in reasonably soon, that can enable the City to rethink the severity of its service and personnel cuts, and create revenue that will be more stable if a future crisis of this sort returns.

B. The City Council Should Ensure Meaningful Resident Participation In The Economic Recovery Planning Process, And That Those Efforts Are Focused On Economic Activity That Most Benefit The City And Its Residents Rather Than Efforts To Undo Prior Development Policy Decisions

Whether intentional or not, the City's initial efforts at planning for an economic recovery shook the faith of the residents that they would have a meaningful voice in the process, and that the process indeed is focused on restoring the City's budget, creating jobs and business opportunities for residents of the City, and preserving the character of the City. City Council should act to reassure the residents.

SM Forward provided a set of economic recovery principles (unsupported by economic analysis) that were perceived by many in the Community, including SMRR, as seeking to undo the LUCE and to generally advance the interests of the developers, businesses, lobbyists and others with a direct financial stake in the outcome of the City's development decisions that have provided principal funding to SM Forward's election activities.¹ SM Forward and its representatives then were invited to the City's first economic recovery task force meeting, and identified in the Staff report to Council about the taskforce as a community partner, to the exclusion of any grassroots resident organizations.

SMRR believes economic recovery efforts by the City should not be used as a pretext to undo prior development policy decisions in the LUCE or otherwise. SMRR further believes that development agreements must stand or fall on their merits. As noted above, those projects will not come online to provide meaningful relief in the current crisis, and in many cases merely exacerbate overreliance on the most challenged sectors of the economy or those that at present do not meaningfully contribute to City revenues. Consideration of the merits of all economic recovery activities should include whether and the extent to which jobs or business ownership opportunities *for residents* are being created,² and whether and the extent to which there are other concrete benefits to Santa Monica in having those activities occur in the eight square miles of Santa Monica (including revenues and helping the City to meet a *fair share* of regional needs). Increases in costs also must be considered. Voices of SMRR and other resident groups with perspectives on these issues should be heard in the recovery planning process itself, and not merely in the few days after a plan already is developed and presented to City Council.

II. THE IMMEDIATE BUDGET PLAN

SMRR urges that the City Council, when making budget decisions (including prioritizing which services and related personnel should be restored first across the entire budget), maintain the City's historic and fundamental commitment to its core values of a diverse community, affordable housing and renters' rights, environmental sustainability, and excellent public schools and educational programs. Every effort should be made to preserve or quickly restore services

¹ See California Form 460 for Santa Monica Forward (covering period of 9/23/18 to 10/20/18), filed on 1/24/19.

² A study performed for the City in early 2016 indicated that only 10% of jobs in Santa Monica were held by residents of Santa Monica.

that serve those among us who possess the fewest resources of their own with which to cope with both the pre-existing affordable housing crisis and the current crisis economic ciris. Toward that end, SMRR offers the following concrete proposals regarding Staff’s proposed plan.

A. The City Council Should Reject Staff’s Proposed Suspension Of The Ramp Up Of The Preserving Our Diversity Program

The Preserving Our Diversity Program (“POD Program”) is a highly innovative and highly cost-effective local rent subsidy program targeted at long-term Santa Monica seniors who by definition do not have enough after-rent income to afford the other necessities of life as determined by the UCLA School of Public Health’s Elder Index. Under the program’s innovative design, the previously approved budget of \$2 million per year would allow *a minimum* of 434 Santa Monica seniors remain in their homes with dignity. This program has garnered great attention across the State as a potential model.

SMRR believes that the COVID-19 crisis, if anything, makes the need for the POD Program even greater. Even before the crisis, HUD data indicated that some 6,000 Santa Monica renter households are extremely low income and very low but pay *more than half their meagre incomes for housing*. And even before the crisis, members of the community (including many from the Pico Neighborhood) advocated extending the program to families with children. Representatives of CCSM also advocated extending the program to residents of the City’s deed restricted affordable housing who are suffering rent burdens and even severe rent burdens. Indeed, a Staff Report to the Housing Commission presented at its February 2020 meeting indicated that, based on readily accessible data, *59% of households in close to 2,000 Santa Monica’s deed-restricted affordable housing units are rent-burdened, including 30% who pay more than 40% of their incomes in rent and a full 13% paying more than 50%!!* SMRR agrees with other voices in the Community that, if anything, the current crisis enhances the case for further POD expansion.

While current budget realities may preclude expansion beyond the previously agreed \$2 million per year, SMRR urges the City Council at least to maintain the \$2 million annual POD commitment. While Council and Staff can determine where to find those funds, SMRR suggests as possibilities:

(1) making a targeted request to the Governor to release to the City \$2 million in CARES funds specifically for the POD Program in FY 2020-21, and drawing on the assistance of others to lobby for the program (e.g., the California Commission on Aging, which invited the Chairperson of the Housing Commission to make a presentation on the program at the Commissions November 2020 Elder Economic Forum; Justice in Aging, which expressed support for a Statewide program; and Congressman Ted Lieu, who indicated a willingness to assist if asked to do so);

(2) use uncommitted residual funds in the Housing Trust Fund (other than the \$3.5 million committed to parking structure demolition that Staff recommends transferring to the General Fund). Based on the FY 2018-2019 Summary Report of Multifamily Housing Production and Housing Trust Fund Financing, it appears at least \$2 million in residual funds should be present;

(3) use the 25% of GS/GSH funds that Staff does not propose to divert from housing in FY 2020-21 (see p. 16 of Staff Report³), if that is really what is meant (as opposed to all of the 0.25% sales tax that the public asked to be devoted to housing under Measures GS/GSH);

(4) if Staff meant instead to recommend that all of the GS/GSH monies for affordable housing be withheld in FY 2020-21, and none from schools, then change that—in accordance with the original GS/GSH advisory measure’s directive to split the revenue equally—to withhold only half from housing, and withhold the other half from schools (and use the remaining FY 2020-2021 GS/GSH housing funding to ramp up POD);

(5) some combination of the above options in lesser individual amounts that in the aggregate total \$2 million.

B. Avoid Or Minimize Cuts To The Legal Aid Foundation Of Los Angeles

Protecting renters, and protecting women and children (and men) from domestic violence, are absolutely essential public services that the Legal Aid Foundation of Los Angeles (“LAFLA”) delivers with support from the City. The need for legal advice to renters, as well as the incidence of domestic violence, have only increased due to the current emergency. And the cuts to the City Attorney’s Office, Code Enforcement, and other direct City services will make the need for private representation of renters and domestic violence victims even greater.

A 12.5% reduction in grants to LAFLA is proposed. This amounts to only about \$75,000. Particularly at a time when private donations to non-profits like LAFLA are generally down, SMRR urges the City to avoid or minimize as much as possible the cut in grant to LAFLA. LAFLA’s services are targeted to those in our community who are most in need of assistance if they are to maintain their homes and/or protect their domestic safety.

C. Maintain the Architectural Review Board And Permit The Housing Commission To Meet

Staff recommends transferring (apparently permanently) the functions of Architectural Review Board (“ARB”) to Staff. Staff further recommends that, alone out of all remaining Boards and Commissions, the Housing Commission should not be permitted to meet. No quantification of the purported “cost savings” from these recommendations is provided.

As an initial matter, SMRR is concerned that these recommendations at least appear to reflect an attempt to silence voices that at times in the past have expressed different views than developers, their paid lobbyists, and City Planning Staff on issues such as development standards (ARB) and inclusionary housing requirements (the Housing Commission). Whatever the intent, there is no basis for silencing these voices. The Staff Report acknowledges that the functions of the ARB

³ “In addition, staff recommends that the Council allow the General Fund to retain one-quarter of the FY 2020-21 Measure GSH transaction and use tax revenue, typically set aside for Affordable Housing per a November 2016 voter-approved advisory measure. This amount is anticipated to be \$5.6 million. In future years, it is anticipated that these funds will continue to be set-aside for Affordable Housing.”

remain, and further reduction of resident input on fundamental issues such a development standards is inconsistent with good government.

As to the Housing Commission, it is a particularly important voice on all aspects of affordable housing policy and programs because it necessarily includes at least two participants in the City's programs, including at least one person who is formerly homeless, and because affordable housing is its core mission and the expertise of its members. It is crucial to maintain their voices before Staff, the City Council and the public. Even if reduced City Staff is unable to provide support for the development of new initiatives during the current budget crisis, allowing the Housing Commission to meet is critical to allow it to work on its own (as it often has in the past) on recommendations for addressing the fact that so many of the households in deed-restricted affordable housing are rent burdened, being a forum for monitoring the success of the newly opened waiting list, and weighing in on critical issues related to the upcoming Housing Element, uses of public land, and potential changes in inclusionary zoning from its unique affordable housing expertise and mission perspective.

Thank you for your consideration of all of the foregoing views.



Denny Zane
Co-Chair, Santa Monica's for Renters' Rights



Michael Soloff
Co-Chair, Santa Monica's for Renters' Rights