American Dream Coalition
Freedom, Mobility, and Affordable Homeownership

The American Dreamer

Newsletter of the American Dream Coalition • americandreamcoalition.org • Summer 2007

From the Director

San Jose perfectly illustrates many of the issues in the news lately: housing affordability and housing bubbles, transportation funding priorities, and urban growth. So we are pleased to hold the 2007 Preserving the American Dream conference in San Jose on November 10–12.

As the stories on pages 2 and 3 illustrate, people can learn much from San Jose. San Jose actually started to build its way out of congestion, reducing the time people wasted in traffic by 50 percent. But the money originally dedicated to roads was hijacked by the local transit agency which now wants to spend it on a $4.7 billion rail line that will do absolutely nothing to relieve congestion.

San José's housing crisis is practically unmatched anywhere outside of California. After the dot-com crash, San Jose lost 17 percent of its jobs and office vacancy rates climbed from 3 to 30 percent. Yet local housing prices continued to bubble up another 25 percent. As the article on page 3 shows, all of California is beset by a housing shortage due to laws that were passed with good intentions but had huge unintended consequences.

Our 2007 conference will focus on many of these things, both to help people in other states learn from California's mistakes and to offer some idea of how places that are in San José's position can recover. No doubt the conference will also deal with the infrastructure questions raised by the bridge collapse in Minneapolis. A conference registration form is on page 4, and I hope to see you there.

—*Randal O'Toole*

Collapse Signals Hidden Problems

As we watched the horrific scenes of the Minneapolis bridge collapse unfold on our television and computer screens, people naturally asked: Why did this happen? Are other bridges in danger of collapse? Have our funding priorities been misplaced?

Throughout the United States, reporters dug into transportation agency files looking for local bridges that have received "deficiency" ratings similar to those given to the I-35W bridge as far back as 1990. But before Congress and the states approve an orgy of new taxes and bridge replacements, we need to examine how we got where we are today.

Emergency crews rush to rescue motorists on the collapsed I-35W bridge in Minneapolis. Photo by Poppyseed Bandits.

It would be easy to blame the Hiawatha light rail, which Minneapolis built at a 49 percent cost overrun, for diverting funds away from bridge safety. But even if the light rail had not been built, it is unlikely that Minnesota would have replaced the I-35W bridge.

Instead, the problems are much deeper and go back to three trends in the 1960s and 1970s. First was the growth of an anti-auto movement. While that movement was initially based on concerns over air pollution and highway safety, those problems have been greatly reduced today, yet the movement is stronger than ever. Sometimes called "NIMBYs," it would be more accurate to call anti-auto advocates "NAMFAEs": *no auto mobility for anyone else*. These groups would rather see scarce transportation funds spent on light rail and streetcars that provide almost no transportation benefits than on things that provide congestion relief.

Second was the Vietnam-war-induced inflation that drove up construction costs but had little effect on highway revenues. Most U.S. highways are paid for out of gas taxes, which are fixed on a per gallon basis. After adjusting for inflation, the amount of tax people pay today for every mile they drive is less than half the amount their parents paid in 1960. This put highway agencies in permanent catch-up mode and allowed congestion to get continually worse.

Third was the tendency of Congress and state legislatures to sidestep transportation controversies by turning them over to urban planners. First with the National Environmental Policy Act of 1969, and later with the Clean Air Act and various transportation bills, Congress constructed an elaborate planning process that allowed the NAMFAEs to delay projects for decades. As the anonymous lobbyist on Wonkette points out, it can now take more than two decades to replace a bridge once it has been identified as deficient.

Instead of raising taxes to build new bridges, we need to come up with a better system of user fees that will give highway agencies incentives to build roads where they are needed. We also need to exempt those agencies from much of the onerous planning and red tape. To do these things, we need to educate people about the great benefits and diminishing costs of automobility.

Stories from Old San Jose #1:

You Can Build Your Way Out of Congestion

San Jose is living proof that crowded cities *can* build their way out of congestion: Between 1989 and 1994, the region gained 100,000 new jobs, yet new road construction cut the delays encountered by the average rush-hour driver in half. Yet the aftermath of this stunning success provides a dark lesson for urban leaders all across the country.

In 1984, voters in Santa Clara County (of which San Jose is the seat) approved a ten-year half-cent sales tax for new highways. This allowed the construction of several new freeways and the expansion of several more. As a result, the Texas Transportation Institute estimates that the delay facing each rush-hour commuter declined from 100 hours per year in 1989 to just 50 hours in 1994.

In 1991, California voters agreed to provide even more funding for congestion relief by raising gasoline taxes by 9 cents a gallon. This measure also required all urban counties to create a *congestion management agency* (CMA) that would decide how best to spend each county's share of the funds to reduce congestion.

In 1995, Santa Clara County decided to merge its CMA with its transit agency, the Valley Transportation Authority (VTA). This created a huge conflict of interest: VTA would get to keep any money it decided to spend on transit, while money spent on highways would go to some other agency.

Unsurprisingly, VTA decided to spend as much as possible on transit. In fact, within just five years, VTA effectively stole billions of dollars from highways to finance its rail-transit empire.

In 1996, when the half-cent sales tax for congestion relief was up for a 10-year renewal, VTA decided to spend half of it on rail construction. Then, in 2000, VTA put a new measure on the ballot to renew the sales tax for 30 more years and dedicate it all to transit. After an expensive campaign promising congestion relief, voters agreed.

Much of that money is slated to go for a $4.7 billion extension of the BART system to San Jose. The environmental impact report for this extension says that BART will provide absolutely *no* congestion relief: the average speed of rush-hour traffic on all highways in the area will be exactly the same with or without BART.

Flush with funds for capital improvements, VTA is also building new light-rail lines. Yet in 2001 it ran out of money to operate those lines, so it cut rail and bus service by 19 percent. This contributed to a 35 percent decline in transit ridership between 2001 and 2005.

VTA's general manager admits that the agency does not have enough money to build BART and, even if it did, it would not have enough money to operate it. Yet the agency's board insists on continuing with the project, recently voting to spend $185 million on further engineering studies.

Even before the service cuts, VTA had just about the worst-performing light-rail trains in the country. Although a light-rail car can hold up to 200 people, VTA's cars carried an average of just 15 people at a time in 2001, little more than half the national average. By 2005, this had fallen to 13. Due partly to this low ridership, VTA spent more than $7 per rider operating light rail in 2005, compared with an average of $2.56 for light rail nationwide.

Ridership is so low that the average mile of light-rail line carries just 4 percent as many people per day as the average freeway lane mile in San Jose. On some light-rail routes, VTA runs only four light-rail "trains" per hour—and the word *trains* is in quotation marks because VTA often runs just one car at a time. There is no reason why buses could not provide far better service at a far lower cost, but VTA is planning at least one more light-rail route in addition to the BART line.

San Jose's new Guadalupe Freeway, funded by a one-half-cent sales tax approved in 1984, and the new Guadalupe light-rail line, funded by an extension of that tax approved in 1996. The freeway cost less, per lane mile, than each mile of rail line, yet it provides transportation to far more people.

Fortunately, Santa Clara County voters have wised up to VTA. A new sales tax on the ballot in June 2006 that would have allowed VTA to build the BART line was decisively rejected. But voters still have to somehow wrest the half-cent sales tax that is supposed to be used for congestion relief away from VTA.

San Jose's transportation experience should provide cautionary lessons to people in other urban areas:

1. You *can* build your way out of congestion. But if you fund such construction out of general sales tax instead of a highway user fee, the tax will be more vulnerable to diversions to more wasteful projects.
2. If you give an agency the power to decide how to spend money to relieve congestion, be absolutely sure that the agency has no conflicts of interest and is not vulnerable to political meddling. Rather than local transit or state transportation agencies, the best solution is probably a regional toll road authority that can collect tolls and spend them exclusively on roads.
3. In general, a half-cent sales tax is plenty to operate a bus transit agency. When that agency asks for another half cent to build rail transit, however, be warned: it will not be enough money and is likely to result in reduced bus service.

The 2007 Preserving the American Dream conference will feature recent and proposed transportation projects on the November 10 tour of the San Jose region.

How to Create a Housing Crisis

When viewed from anywhere outside of California, San Jose's housing prices are simply outrageous. The median price of the region's homes, including condos, is well over $500,000, while the median for single-family homes alone is $800,000. Coldwell Banker says a four-bedroom, two-and-one-half bath home suitable for a middle-manager's family costs more than $1.4 million.

Inside California, however, those prices seem almost normal. Several cities in the state, including San Francisco, Santa Barbara, and La Jolla, are more expensive than San Jose. The state's most affordable housing market—Bakersfield—is less affordable than 90 percent of the housing markets in the rest of the country.

California wasn't always so expensive. As late as 1970, housing affordability in California urban areas—even San Francisco—was about the same as the rest of the country. A close look at San Jose reveals that a series of laws inadvertantly created housing shortages throughout the Golden State.

During the 1950s and 1960s, San Jose adopted a policy of aggressively annexing as much land as it could in order to become the region's leading city. This raised the ire of nearby cities, and in 1963 the legislature responded by requiring every county in the state to create a *Local Agency Formation Commission* (LAFCo) that would oversee and approve annexations and the formation of new cities and service districts.

LAFCos were not intended to control sprawl, but they ended up that way because most LAFCos consisted of two commissioners from every city in the county plus two county supervisors. Cities have interests that can be very different from those of the people who live in those cities: most notably, the cities are motivated by tax revenue. In short, the cities of California used LAFCos to prevent any development outside of city limits. Cities also limited their annexations in the expectation that they could force development to take place within their limits.

The remarkable result is that the nation's most heavily populated state is also the most concentrated state. Almost 95 percent of the people in the state live on barely 5 percent of the state's land area. California's urban areas have an average density greater than 4,000 people per square mile, compared with less than 2,400 for the rest of the country.

Two other laws provided more inhibitions to housing supply. First, in 1970 the legislature passed the California Environmental Quality Act (CEQA), which the courts interpreted to require endless years of planning before any city could annex land—even with the LAFCo's permission—or to develop that land once annexed. Second, in 1971 the state passed a planning law that effectively entitled every resident of the state to have a say in how any property owner in the state used their land. In one case, a lone boy scout was able to stop a 200-unit condo project.

These laws meant that, even if some cities were not interested in inhibiting growth, growth could still be restricted by a small minority of the people in those cities. Despite the good intentions behind these laws, they have imposed huge costs on the state's homebuyers and kept millions of young and low-income people from achieving the dream of homeownership.

A 2002 study asked why San Jose home prices were so much higher than those in Dallas, Texas:

- The biggest difference was in land costs: a 7,000-square-foot lot in Dallas cost only $29,000. In San Jose, due to the LAFCos, a 2,400-square-foot lot cost $232,000;
- Due to CEQA and the planning law, San Jose's lengthy permitting process (and the high risk that a permit will never be issued) means San Jose developers need a $100,000 profit per home, while Dallas developers need less than $10,000;
- Due mainly to high housing prices, San Jose labor costs are higher: $143,000 for a three-bedroom house compared with $100,000 in Dallas.
- To help pay for roads, schools, and other services, San Jose charged developers impact fees of $29,000 per new residence, while Dallas charged only $5,000;

To "solve" the housing crisis, San Jose and other cities have also adopted inclusionary zoning ordinances that require developers to sell or rent 15 percent of the homes they build to low-income families at below-market prices. Developers naturally pass the cost onto other homebuyers, which further drives up the general cost of housing in the area.

California's experience should provide important lessons for people in other states and regions:

1. Don't give cities any say over what happens on land outside their boundaries. The competition over annexations might have created municipal tensions in the 1960s, but it kept housing affordable and encouraged cities to compete for taxpayers who could vote with their feet.
2. Don't give people a say over what happens on land owned by other people. Instead, use other means to deal with potential nuisances and externalities of private ownership.
3. Since sellers of existing homes gauge the price they ask on the cost of new homes, anything that increases new home costs makes housing markets less affordable. Thus, cities should avoid such things as impact fees and inclusionary zoning.

Since LAFCos have created an artificial land shortage, most new homes in the San Jose area are either on tiny lots or are condos.

The 2007 Preserving the American Dream Conference

On November 10-12, the 2007 Preserving the American Dream conference will visit San Jose, one of the most-regulated, least-affordable urban areas in America. The conference will begin at 8:30 am on Saturday, November 10 with a tour of San Jose land-use and transportation projects. This tour has always proven to be the highlight of our annual conference.

Saturday evening will feature a debate over the future of San Jose by local leaders and experts. Sunday will include a full program of dozens of expert speakers on transportation, property rights, and other issues. Invited speakers include Secretary of Transportation Mary Peters, writers Joel Kotkin and William T. Bogart, housing experts Mark Pennington, James Heartfield, Wendell Cox, and Benjamin Powell, and transportation experts Robert Poole, Sam Staley, Ted Balaker, Tom Rubin, Joel Schwartz, and Martin Stone.

Monday morning will include several sessions helping people hone their skills as grassroots activists. In the afternoon, the American Dream Coalition will hold its annual membership meeting—anyone is welcome to attend but only coalition members can elect members of the Coalition's 2008 steering committee.

Don't miss this great conference! Use the registration form below or register on the ADC's web site.

Conference Registration & Membership Form

The American Dream Coalition provides numerous benefits for its members, including research, a speakers' bureau, leadership training, and the annual conference. Your membership fees and contributions help pay for these activities. Sustaining and full/group members each have one vote on the ADC steering committee. Associate and individual members elect three members of the ADC steering committee. Contributions in excess of $25 per year are tax deductible. To register for the conference, or to join or renew your membership, use this form or go to the American Dream Coalition's web site.

- ❑ I/we would like to join/renew our membership in the American Dream Coalition as:
  - ❑ a sustaining member ($1,000)
  - ❑ a full/group member ($250)
  - ❑ an associate member ($100)
  - ❑ an individual member ($25)
- ❑ I would also like to contribute $________.
- ❑ I would like to attend the 2007 conference:
  - ❑ Regular conference rate ($249)
  - ❑ Student/low-income rate ($175)
  - ❑ Late registration fee (after October 26, $25)
- ❑ Optional November 10 tour of San Jose ($25)
- ❑ Enclosed is a check for $_________.
- ❑ I will pay by PayPal to american@americandreamcoalition.org.

Name ____

Organization ____

Address ____

City ____________________ State ________ Zip _________

Email address _______________________________________

Web site (for groups) _________________________________

Make checks payable to the American Dream Coalition and mail to:
ADC, P. O. Box 1590, Bandon, Oregon 97411
or email to rot@americandreamcoalition.org

American Dream Coalition
Post Office Box 1590
Bandon, Oregon 97411