The Legacy of Redlining in Los Angeles: Disinvestment, Injustice, and Inefficiency
Finding a Path Forward in 2019 and Beyond
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Introduction
When discussing the current state of Los Angeles, the Neighborhood Council Budget Advocates would be remiss if they did not utilize the organization’s citywide platform to bring attention to issues from a fresh perspective.

While some Angelenos are unfamiliar with the term redlining, the troubled zeitgeist of 2019 in Los Angeles is its legacy. Redlining is the elephant in the room in our nation’s economic history and in the modern conversation about gentrification in Los Angeles. Redlining was a systematic denial of economic investment, largely on the basis of race, that was codified into federal policy in the 1930s. The crises of high rents, displacement, homelessness, budget shortages, and other failures and injustices that are themes in the Budget Advocates’ 2019 White Paper, can be attributed in part to the legacy of redlining.

It is high time that an organization with such a platform as the Budget Advocates found the political courage to amplify a constructive citywide discussion on redlining, and also begin a discussion that will build awareness of the relatively recent creation of “Opportunity Zones,” as part of a 2017 Federal Tax Bill and will provide tax incentives for investment in certain tracts.

The goals of this document are to bring attention to the practice of redlining and explain its role in creating a citywide housing, development, environmental, and social justice quagmire; to articulate some of the challenges associated with top-down solutions and introduce a productive discussion to address these; to discuss how budgetary inefficiency perpetuates economic injustice; and to call attention to Opportunity Zones, encourage awareness of this policy, and ask our city’s leaders to take steps to ensure that this federal policy is rolled out responsibly and does not adversely affect our City and Angelenos, the way that redlining once did.

A socially just and fiscally healthy future depends on our city’s ability to face its past, correct failures and inefficiencies, work to avoid repeating errors, and become proactive in adapting to modern policy that directly impacts our communities. Doing this will ensure that thriving in modern day Los Angeles will be possible for generations to come.

What is Redlining?
When U.S. President Franklin D. Roosevelt took office in 1933, he acted quickly to work toward bringing relief to the American people who were suffering economically through the Great Depression. His reforms were collectively known as The New Deal. They brought economic improvements and safety nets that had positive effects including Social Security, Unemployment insurance, and Glass-Steagall. The middle third of the 20th century is sometimes considered the most prosperous period of American history during which many jobs were created and many Americans were given assistance in buying and keeping homes. However, all was not right with the reforms of this era.

Two agencies created during this time were the Home Owners Loan Corporation (HOLC) and its parent agency, the Federal Home Loan Bank Board. HOLC relied on local real estate agents and lenders to figure out the investment risks in various cities so banks could determine where to give out loans. These agents and lenders judged neighborhoods based on racial and socioeconomic makeup and biases of the time. Regions were divided by color on maps: Fourth Grade-D neighborhoods were coded in red, Third Grade-C areas in yellow, Second Grade-B areas in blue, and First Grade-A neighborhoods in green denoting “most desirable.” Low ratings, C or D from HOLC, made it difficult for minorities and poor whites to obtain home loans. As a result of redlining, many minority renters had to rent housing from landlords who engaged in price gouging, knowing that these renters had no other options.
Below is a photo of a HOLC map from 1939².

Individuals and homeowner associations in white neighborhoods also manipulated property values by adding restrictive covenants to real estate contracts. These included conditions and restrictions on which types of features and businesses could be operated on the property after sale or other stipulations. For example, a covenant may stipulate that the buyer could not open a liquor store, build additional structures, or sell the property to members of specific ethnic groups.²

According to the Digital Scholarship Lab at the University of Richmond, “scholars have characterized HOLC’s property assessment and risk management practices, as well as those of the Federal Housing Administration, Veterans Administration, and US. Housing Authority, as some of the most important factors in preserving racial segregation, intergenerational poverty, and the continued wealth gap between white Americans and most other groups in the U.S.” These agencies simultaneously assured that growth would remain accompanied by real estate speculation and environmental degradation — meaning disinvestment, neglect, and unjust placement of environmental hazards.³

Redlining in Los Angeles, 2019

The conversations of today regarding fiscal decisions can find origins in failed and unconstitutional policies of yesteryear. The adverse effects of redlining in Northeast and Eastside communities of Los Angeles are statistically visible today. Many consider communities including Highland Park and Boyle Heights to be “ground zero” for gentrification in Los Angeles⁴. In general, it is acknowledged that present-day gentrified areas mirror the 1930s-era redlined areas that were assigned C or D ratings by HOLC. Recent statistics show that Lincoln Heights and Boyle Heights have some of the lowest rates of homeownership in Los Angeles County. They rank 25th and 26th out of 272 neighborhoods in LA County with 75.9% of their populations being comprised of renters; these neighborhoods were once assigned a rating of Fourth Grade-D by HOLC. Highland Park comes in 70th out of 272 with 60.9% renters; during that era, this neighborhood was assigned ratings of both C and D⁵.

According to a study done using data from the U.S. Census Panel Study of Income Dynamics (PSID), renters are twice as likely as homeowners to experience displacement through gentrification⁶. While there is an understood nature of impermanence to renting, such an impermanence can be unnaturally hastened by practices like price gouging, volatile rents, and illegal actions by landlords. Los Angeles is struggling with an inhumane crisis of affordable housing and homelessness exacerbated by high rents, a lack of housing throughout the city, and inequity of development between neighborhoods. This city’s housing and homelessness crisis are a major factor of concern. Redlining and its effects on patterns of development, financial investment, infrastructure, and social dynamics in Los Angeles communities are an integral part of this discussion.

The entrenched car culture of today has an ally in redlining, and it is inextricably linked to the crisis of housing we are facing today. Historically, highway projects were weaponized to bulldoze through neighborhoods assigned ratings of D, in red, by HOLC. In Boyle Heights, 100% of proposed freeway projects were approved, leading to the neighborhoods of the Eastside being bisected and disrupted by freeways. This destroyed communities, causing displacement of over 10,000 people at that time, disrupting community dynamics, and reducing the stock of homes in the area. By contrast, in other areas with higher ratings from HOLC in Los Angeles County, only 61% of freeway projects planned were built⁷. Famously, the 710 freeway extension has been embattled for over 60 years.

Racial discrimination in housing was legal until 1968 in the US. In 1950, Article 34 was adopted as part of the California Constitution and stated that no low rent housing could be built by the government without electoral approval from the voters. Los Angeles voters overwhelmingly supported Article 34 at the time. The city had plans approved to build 10,000 units of public housing, but the vote to approve Article 34 led to a referendum. In 1952, public housing was rejected in Los Angeles and the previously approved units were not built. Two proposed public housing developments in Chavez Ravine were cancelled, even after residents had been violently displaced. There have since been three separate attempts to repeal Article 34, but all have failed. There will be another attempt to repeal it in 2020.⁸

The root of resistance in gentrifying communities is not a lack of desire for housing or improvements. The root comes from the fact that historically marginalized communities believe their ability to self-determine their
own future is being taken away by outside forces, as it was during the era of redlining in post-New Deal America.

There is a real fear of vulnerable renters being evicted as a result of massive rent increases, price gouging, or illegal action such as “cash for keys.” By contrast, resistance to housing in in wealthier communities comes largely from a desire to curb density, resulting in these communities not having or creating space or services for the poor and pushing them out into areas that are already struggling due to disinvestment. If Los Angeles, and other cities throughout the state of California do not build enough housing voluntarily, state intervention will occur.

Today, all over the city, there is fierce controversy around adding transit solutions like bike lanes and trains, as well as controversy over zoning variances. One example of such variances include those associated with building transit-oriented communities as outlined in Proposition JJJ, despite the fact that JJJ was approved by voters. Such projects are met with resistance from communities because of fears of displacement, with valid arguments made that the number of affordable units required in order for the development to be eligible for incentives should be higher. Introducing transit oriented communities in areas that were historically optimized for vehicles as a result of redlining adds a complex and nuanced layer of inequity to something that on the surface seems like a good thing due to the possibility that community in place will not truly be able to access it. Acknowledging this means a possibility for more dialogue on how to address this fairly.

One proposal made by Metro to reduce car usage is by implementing “congestion pricing.” The goal is to ease traffic and get cars off the road, but will adversely affect working class people who least can afford added costs or time poverty. Understanding context behind how neighborhoods were optimized for cars makes the injustice of this proposal clear and forces us to be more creative in looking for real solutions.

The citywide public transportation system needs to be made more robust and efficient in order to create a real viable option that will allow people to organically reduce their dependence on cars while enriching communities. There are two parts to this goal. The first part is that neighborhoods citywide need to be open to more routes, more frequent service, reliable schedules, and more buses and trains. These types of initial service improvements can be started without construction: by hiring more operators, by approving more bus routes, and by adding more buses or train cars to existing routes. The second part is that there need to be livable-wage jobs with upward wage potential in every community, in close proximity to residents. According to a recent Brookings study, Angelenos on average face commutes of 8.8 miles each way to get to their workplaces. People in neighborhoods with high poverty rates or that are majority-minority tend to be even further away from jobs and have longer commutes. There can be discussion about shortening commute times, but if the distance between home and livable-wage jobs is too long, addressing this as a root cause is critical.

Increased density is an inevitability in Los Angeles, and cities all over the US. Millennials are the largest, most diverse, and most educated generation in American history with 83.1 million individuals. It has been widely reported that millennials are choosing to live in cities over suburbs. However, it is a well reported fact that the Great Recession of 2008 adversely affected economic outcomes for this generation. Millennials who graduated during the recession experienced depressed salaries in the first decade of their careers, which has an outsize impact in determining lifetime earnings. Americans, mainly millennials, hold over $1.5 trillion in student debt and California has the most student debt out of any state. It is well documented that this generation is poorer than the generations that came before it, meaning that this generational cohort’s ability to spend on housing is reduced. If demand for housing continues to exceed available supply, wages remain depressed, and livable-wage jobs remain scarce or distant, then housing will remain unaffordable and unattainable, and tensions will continue to build. If historically redlined communities continue to lack livable wage jobs for college graduates from those communities that will enable them to cover their living expenses, rent, and student loan payments, those young people will inevitably be priced out of their own communities and displaced. Student debt is highest where labor markets are weak; loan delinquency hurts minority communities most, including Angelenos who are Black and Latino, and this is believed to be a result of structural racism. This is an issue that deserves further attention and research in the conversation about gentrification and displacement in Los Angeles. All of these factors need to be addressed as more young people come of age to require their own housing and start careers.
From an environmental justice standpoint, and with the real threat of climate change in mind, addressing dependence on cars is something that needs to be done in a meaningful way and with a sense of urgency, especially as low-income areas are disproportionately affected by environmental hazards. Recent research has found that students who switch to schools that experience higher amounts of traffic pollution have lowered test scores, increased absences, and behavioral incidents\textsuperscript{viii}. However, adding new housing and new transportation solutions must be done equitably and with care: wealthier neighborhoods must share in the efforts of being part of infrastructure solutions, instead of forcing historically redlined neighborhoods to suffer the growing pains of ushering in the future alone. An example of this in Los Angeles County is the fierce resistance that Metro’s Purple Line met because it would traveling underneath a school in Beverly Hills; meanwhile in East Los Angeles and Westlake, there are already train lines running underneath schools,\textsuperscript{xvi}

Upgrades to existing infrastructure must occur equitably, and not only in wealthier neighborhoods. Communities all over Los Angeles need housing, but if there are no resources around the housing, including livable-wage jobs, and there is disinvestment that results in density without equitably providing services to the community, or ensuring that existing services are brought up-to-date, then there is still failure. Being informed on historic context creates a productive discourse with which we can move forward as a united city.

Departments Need More Funding: A Tragedy of the Commons

A tragedy of the commons is a scenario in which individuals take from a shared resource at such a high rate that the demand for the resource outpaces the supply. At that point, one individual taking from the shared resource can harm another. Such a scenario especially occurs when the societal good is overlooked and deprioritized in the utilization of resources.

A recurring theme in the Budget Advocates 2019 White Paper is that city departments require more funds to be allocated in order to function optimally, provide services to the community, and perform the upgrades needed to city infrastructure. The shared resource in question is taxpayer dollars available to fund our city budget.

Historically redlined communities stand to hurt the most from a tragedy of the commons because negative feedback loops, patterns in which negative inputs into a system perpetuate, are at play. Disruption of feedback loops often requires a shock to the system.

The reality is that the city budget is overwhelmed. In October 2018, the office of City Controller Ron Galperin reported that city expenditures exceeded revenues for the third year in a row\textsuperscript{xviii}. One department may utilize an excess of city funds, but if there simply is not enough to go around, other departments will suffer.

Correcting Disinvestment and Inequity by Addressing Inefficiency: Are we ready for LA2028?

To invite the 2028 Olympic Games is to suggest that Los Angeles is ready for the world’s spotlight. However, much work will need to be done in fewer than ten years for Los Angeles to truly be up to the task from a budgetary standpoint. Relative to other host cities, Los Angeles may be comparatively ready, but there is still improvement needed.

Various statistics using differing methodologies are available with results broadly suggesting that anywhere from 35\%\textsuperscript{xix} to 83\%\textsuperscript{xx} of respondents in Los Angeles County feel some degree of support of the Games. With such wide variation between the data, the fiscal health and budgets of the city and its departments are an objective place to look for data-based answers. Paired with historic context, it gives us powerful insight into ways to move forward that will enable the LA2028 games to bring more positive effects than negative.

Before Los Angeles can consider itself ready for the Games, it needs to correct disinvestment and inequity throughout the city. It needs to ensure that and that facilities and services are sufficient and up-to-date for the people who live in the city now and that neighbors are treated fairly. This means, in large part, that it needs to clean up its finances, address inefficiency, and properly allocate funds to departments to ensure that Angelenos are not harmed as the city readies itself for 2028.

Idle Funds Are a Symptom

In March, 2018 City Controller Ron Galperin’s office filed a report identifying over $28 million in idle funds that could be utilized by departments\textsuperscript{xix}. $28 million alone is hardly sufficient to solve all of the budgetary shortfalls in the city, but the existence of these idle funds throughout various departments demonstrates that inefficiency is a widespread systemic issue that needs to be addressed posthaste. Collectively, each inefficiency discovered can have a large impact.

Sporting is the central attraction of the Olympic Games, yet the Department of Recreation and Parks is in need of funding and staff. How can kids from South LA or the Eastside, areas that have historically been victimized by
disinvestment and systemic neglect, hope to train for the Olympics if the Department responsible for maintaining and updating city sporting facilities in their area does not have the funding it needs to prioritize them, meanwhile $7.6 million for parks sits idly\textsuperscript{xxviii}. How can we hope to house an influx of athletes and tourists when we have over 31,000\textsuperscript{xxix} homeless neighbors living and suffering on the streets and more neighbors yet being displaced throughout the city while $5.1 million\textsuperscript{xxxvii} for affordable housing sits idly\textsuperscript{xxxvii}? This is the tip of the iceberg of budgetary inefficiency. Budgetary inefficiency takes away resources from people who need it the most and needs to be corrected before 2028. Inefficiency is injustice.

### Solving Inefficiency Fosters a Fairer Los Angeles: An Example

In December of 2018, the Los Angeles Times reported that 110 retired cops and firefighters were collecting pensions that were so high that they exceeded the $220,000 per year pension fund limits set by the IRS. $14.6 million of city funds were allocated to an “Excess Benefit Plan” fund to cover this between 2010 and 2018\textsuperscript{xxxvii}.

The Dept. of Recreation and Parks is concerned as they struggle to recruit and retain park rangers, maintenance workers, and other staff. Salaries for new park rangers start at $52,158 according to a recent job posting\textsuperscript{xxv}. A college graduate with $25,000 in student loans on a 10-year repayment plan at 6.8% interest would have a payment of $280 a month\textsuperscript{xxxviii}.

In perspective, $14.6 million in city funds paid out over the course of eight years could fund a starting pay increase of $7,300 for 250 workers who are paid wages lower than the median income in LA County. Or, it could fund an innovative employee recruitment and retention incentive program to provide student loan payment assistance of $280 per month to 543 new hires whose yearly salaries fall below HUD’s low-income threshold.

These are a couple of basic examples of how examining $14.6 million dollars in inefficiency could create solutions to alleviate staff recruitment and retention issues and improve employees’ quality of life. It additionally includes a way to begin to address the effects of the student loan crisis, which is something that the city has yet to bring up as part of why it may be struggling with recruitment for some positions.

The LA 2020 Commission called for the creation of an Office of Transparency and Accountability to review and analyze the city’s budget and finances, benchmark the efficiency of city departments, and analyze agreements and legislation that City Hall enters\textsuperscript{xxvi}. This was publicly endorsed by Councilmember Herb Wesson. Following through on creating this office would be one way to ensure that a task force is created to find other such inefficiencies and address them in a timely and effective manner.

### Ensuring that Top-Down Solutions Do Not Threaten Self-Determination

If Los Angeles does not locally address the needs of the people in a significant and meaningful way, it may relinquish our communities’ ability to self-determine their future to the state. Poorer neighborhoods, those that historically have been redlined, will be the most affected in terms of loss of ability to self-determine. Elsewhere in Southern California, Huntington Beach is facing lawsuits as a result of not building enough housing to accommodate the needs of its growing population and Governor Newsom’s aggressive stance against local governments who are not building enough\textsuperscript{xxv}. If Los Angeles were to face similar lawsuits, they would siphon funding away from services for those who need it most.

### U.S. Investing in Opportunity Act: What are Opportunity Zones?

The U.S. Investing in Opportunity Act is a Trump-era statute, introduced with bipartisan support. It was passed in December 2017 as part of the Federal Tax Bill and created tax incentives for those who invest in census tracts that are designated as “Opportunity Zones\textsuperscript{xxxi}.” These zones consist of “historically distressed neighborhoods” throughout the US.\textsuperscript{xxxi}

The idea behind such a statute is that it could drive growth in low-income communities as a result of reinvestment of capital gains into Opportunity Funds. The type of investment could be flexible, whether it be affordable housing or clean energy, but it has the goals of providing...
living wage jobs, increasing affordable housing, preventing unwanted gentrification and building resilient communities.

States were able to nominate areas to be classified as Opportunity Zones and California was noted for choosing areas that were “particularly distressed.” The Department of Treasury certified 879 census tracts in California as Qualified Opportunity Zones. Large swaths of Los Angeles are included in these tracts: a total of 274 census tracts including much of DTLA, Skid Row, South Los Angeles and even Hollywood.xxxvi

Concerns about Opportunity Zones
There are valid concerns that these zones will not have the intended beneficial effects to the community, such as alleviating homelessness and improving environmental conditions.

Returning to the topic of self-determination for communities, there is a risk that investment that comes exclusively from outside of the community will diminish the power of the people who are within it. There are also concerns that investment will not actually benefit the intended communities that are in the most need.

Opportunity in Uncertainty?
“This is the biggest initiative of this type by the federal government with the least debate, the least staff support, the least research and still the least clarity,” L.A. Mayor Eric Garcetti told the Wall Street Journal. But he did not appear particularly perturbed by the opaqueness of the program: “It hasn’t really been fleshed out and that’s exciting for me.xxxv”

This policy was not fully researched by the Federal Government under the Trump Administration before it was adopted, but for the people of Los Angeles, the delay in finalized information could allow more time to build awareness and have more input on how the policy unfolds in order to ensure a positive outcome. It is early enough in the process that such conversation could yield tangible results and prevent harm.

At the present time, regulations and guidance have been proposed by the IRS, but there is still time for the public to submit comments and shape them.xxxvi The timing of this document is key as its main goal is to direct the citywide conversation in a productive manner and build the foundation for actionable tasks and solutions.

Los Angeles can lead the way in the conversation by prioritizing public discussions with city leaders, developers, investors, and communities; ensuring that people are aware of how they can provide input and submit comments directly to the IRS; find ways to make investment in Opportunity Funds possible for people who are within the community.

Encouraging Local Access to Opportunity
It is critical to build awareness and amplify the conversation about Opportunity Zones so that it reaches beyond the walls of City Hall. Many Angelenos remain unaware of this policy. Given the disarray of the current presidential administration and the chaos and tension of the political climate, it is understandable that a small provision as part of a larger tax bill could easily get lost among the noise as this one did.

Building awareness in a timely manner, starting with the creation of this document, is an important step. Ensuring that we encourage elected officials to discuss this in City Council, committees, and at local town halls would be a next step.

Finally, suggesting ways to prioritize making investment accessible to small business owners and proprietors from within communities needs to be undertaken by City Council.

A Path Forward.
It is possible that with increased knowledge of historic context, understanding, compassion, and access to good data that is interpreted with care, that Angelenos can work together to push city leaders toward allocating resources equitably and toward fighting inefficiency and inappropriate spending, in ways that will begin to enable a community-driven correction of the legacy of redlining.

There is a real chance to discuss policy of the future that is still in the process of being finalized, such as the creation of Opportunity Zones, which has the potential to shape our city and state for years to come.

Los Angeles is a highly complex world city in which a non-zero-sum scenario is achievable by creating future-oriented solutions to solve today’s problems. Community-driven correction of past inequities means holding city leaders accountable, urging them to adequately fund departments that need attention, urging all Angelenos to engage locally, working toward unity, and educating the public to be able to recognize and reject policy positions that echo the errors of the past.
https://therealdeal.com/la/issues_articles/theres-gold-in-them-zones/
