

Nisimaki Questions 9/21/00

As you mentioned in your first letter, it is not an easy task to make an international comparison of the cases that are deeply rooted in their own political and cultural institutions. Conversely, I think that the research goals need to be focused on some elementary issues that transcend the nations and cultures. I have so far picked three major issues for my case study though the issues have been modified during the course of case investigation. Those are:

- 1) the ways to coordinate the initial simultaneous massive relocation to a new location, (initial large scale marketing problem in a plain private sector language,)
- 2) an optimal form of organization for a city wide development in terms of social welfare,
- 3) coordination of local and regional interests,
- 4) the role of master plan,
- 5) provision of local public goods, and 6) housing element update.

List of Questions

1) Initial Coordination Issue (Marketing Issue)

A large-scale development like a new city is inherently associated with large risks as well. The attractions that the new city in a distance offers is high quality facilities and amenities that the large scale investments make it possible to offer, but the associated risk of not being able to capture a sizable entrants always exist. According to your memos and other literature, the suburban development extending southward from L.A. was already at the doorsteps of the Irvine Ranch at the time. So maybe, there was no fear for the absence of market.

Is it the case?

The more remote the site of a development (large scale or not) is from existing amenities such as schools, parks, shopping, etc. the sooner they must be included to successfully attract new residents. Since all developments start in small pieces the fact that some will become part of an existing city or a new city is not the determining factor in what amenities need to be part of the initial development. Most of the new town developments that began in the early 70's as part of Title VII were remote thus required heavy up front amenities. They almost immediately suffered extreme financial problem and most went broke. Most of the English new towns were located beyond commuting distances from existing cities thus needed more amenities in the early stages. That was a financial burden on those projects. The same was true of the Soviet new towns.

The fact that the Irvine Ranch either bordered on existing cities or a portion was within an existing city such as Newport Beach allowed us to delay many amenities until there was sufficient population to support the "amenity."

One of the comparisons you might make is the financial impact of remote versus close in sites during the early stages of development. I suspect it would be severe.

Was there not any opinion in the firm to stay with farming to see how development takes place?

We did “stay with farming.” Infact the Irvine Company still farms. It was a matter of phasing farming out as we needed the land for development. In that regard our phasing reserved the type I soils for farming and developed the less good soils early on. The problem was that the county assessed all our lands as though they were developable thus raising property taxes beyond the ability of farming to remain profitable. To deal with that problem the state legislature created the Williamson Act, which required us to agree to not develop certain land parcels for ten years in exchange for lower property taxes. The Williamson Act covered some of our parcels for over 30 years.

Remember the Irvine Ranch was over 93,000 acres (three times the size of San Francisco) in 1960. We knew that it would take over 50 years to complete development of the entire ranch. Thus we coordinated urban development with our farming operations.

Moreover, there was a choice between developing in a piece meal fashion and developing in a large scale as it happened. What was the decision making process between two options?

As with all large-scale developments you plan large scale but develop piece meal. The difference was that our pieces were mini-communities which we labeled Villages. Each was diversified in housing types with supporting schools, shopping, etc. You’ll see them when you come. The city of Irvine is a city of villages (as they proudly refer to themselves.)

From the history of Irvine, my understanding is that attracting UCI was the most critical and by deciding to have UCI it was mandated to have a comprehensive large-scale development around the campus. Thus it was in a way binary choice between not inviting UCI and going all the way in a large scale. Is it the case?

I don’t agree UCI was critical. It materially enhances the image of the city but if the campus had located elsewhere I believe Irvine would still be a thriving city today. In 1960 the University of California selected three new sites for new campuses. One in La Jolla, another in Santa Cruz and the third on the ranch. The La Jolla and Irvine sites were within high population growth corridors. Santa Cruz was not. The later site still is somewhat remote and grew much slower. The new campus site just selected is east of Merced and because of its remoteness I believe it will not attract much growth around it for years. The area around Stanford remained relatively undeveloped for years before it caught up with the remoteness of the location.

It is the size of the ranch that required a master plan not the fact that one thousand of the 93 thousand acres was to be devoted to a new campus. State law required we have a master plan before we would be allowed to develop. We choose to create one for the entire ranch. The first phase of the plan covered the 33,000 acre lower portion and wasn’t approved by the county until 1964. The second and central phase was approved in the early 70’s. A portion of the ranch was within existing cities and covered by their master plans. We then modified our portion to fit our village concepts.

Then the plan made by William Pereira has a critical role at the threshold because the opposing voice was still quite strong in the Company at that juncture. Once decided to have a large-scale development, the Irvine Company decides to build a large industrial estate at an early date in addition to the Campus City. Who decided on the industrial development and what was the rationale at the time?

A review of the corporate minutes of the company (1957 to 1960) doesn't indicate any opposition to either opening up the ranch to development or the university locating on the ranch. In fact much of the minutes are devoted to how best to make a deal with the university and the company. For years the company had allowed development on the coast along the edge of the ranch. The emergence of interest by the University and external pressure of the bordering cities and developers indicated that ranching would soon be economically infeasible and it was time to set a new course for the company. Pereira's idea of building a new town around the proposed campus provided both the stimulus and inspiration to move forward. Unfortunately, there were family squabbles, which spilled out on the Board and the company's president, Myford Irvine, committed suicide in January of 1958. From that point on the board sought to find a new president and close a deal with the University which they successfully concluded in the summer of 1960.

Pereira's phase II plan for the new town included an area for industrial developments. We expanded that concept in the subsequent master plans. Our goal was to produce a balanced community with a balance of jobs and housing. The easy part was including industrial parks, etc. in the master plan. The question was would companies locate on the fringe of the suburban growth in Orange County. What happened it that almost simultaneously to our desire to attract industry to our new business parks American industry was changing. It was now primarily composed of new and small start-up companies whom wanted to be located close to where they lived. The new campus and the quality and diversity of our residential villages was what they were looking for. Thus we became successful beyond our wildest dreams in attracting businesses to our industrial and business parks.

Of course this proved to be quite successful but did it add to the risk of the large-scale development?

No, it materially reduced it. Our land sales to industries and businesses provided cash flow needed for infrastructure development and customers for housing sales.

2) Optimal Form of Organization. Three cases of my study represent three different type of implementing organizations - Irvine being a private company development, Milton Keynes, a public corporation development, and Tsukuba, a central government development. In my view, Tsukuba coordinated by the central government shows actually the least central control over the project implementation itself while Irvine, being a local resource monopolist exerted the most control. The question I am addressing here is **what is the best form of organization in terms of city building in terms of maximizing the welfare of the residents.** In many instances the Irvine Company showed remarkable receptiveness to the needs of the residents in such issues as environmental protection. What are other such examples?

What is the best form of organization in terms of city building in terms of maximizing the welfare of the residents?

I believe that linking the needs and aspirations of the residents and those who establish businesses in the city with the mission and goals of the operating organization is more important than the organization's form. Secondly the organization need understand that public needs and aspirations will vary depending upon the circumstances and interest of individuals. Parents of school age children (the largest segment of most new towns) rate schools and safety as their highest priority. Young singles have different wants than older singles and couples. Business owners want access to markets, space to expand, affordable rents, etc. etc.. Every resident and property owner wants the value of their property to increase over time and resist anything they believe would diminish values. The basic difference between public and private ownership of the developing organization is that most public owner's start with how they would like the public to live and their city be like and private owners attempt to responds to the local publics wants. We, of course, label the latter as market oriented which is what it is. But remember the market is primarily the residents and businesses in the city.

The Soviet and English new towns were located a distance from existing cities so as to provide an alternative the latter's continued growth. The problem was that most young people prefer to live within the existing metropolitan areas because of job opportunities, schools, entertainment and diversity. Thus the elderly has dominated many of the English new towns with the youth leaving after high school. Even in the very centralized government in the world, the Soviet Union, they were not successful in restraining the growth of Moscow and other historical cities.

In the United States the Title VII (or was it Title II) new town program in the 70's failed (12 of the 13 new towns sponsored went bankrupt) partially because those who had oversight control defined "public need" as synonymous with their ideal of what a city should be.

The private Irvine Company has been successful because of its location and balancing the wants of the market and the requirements of the Local City and county governments from whom we receive our development approvals.

For instance, we pushed for local neighborhood parks because our research showed that was what mothers favored over larger play fields that the city wanted for their sports programs. In the end we built both. The small local parks became the responsibilities of the local community associations and the larger ones the city's. Most of the thousands of acres of open space we are dedicating to the public is on lands that under today's environmental rules we probably could not economically develop. However, because the public agencies in Orange County have not been good managers of such large and wild open spaces the Company hired the Nature Conservancy to prepare a plan and manage the property.

Based on my forty years in the business and my observations of city building elsewhere I favor a combination of governmental oversight and private management of the actual process. I believe that our mix of local governmental oversight for local issues (which are most of the issues of concern to the residents), regional oversight for regional facilities such as flood control and regional roads, State oversight for water distribution, freeways, higher education and air and water quality.

Was there any particular incidence that the interest of the Company had a sharp conflict with that of the residents?

As the county of Orange and city of Irvine became more populated the freeways that link the region together have become progressively more congested. Although Irvine's arterial and local roads still can handle the increased traffic the freeway congestion grows. Thus any proposed development that increases the population is obviously going to aggravate that problem. The consequence of this is that there is an inherent conflict between the interest of the developer and the existing residents. We want to complete the job of building out Irvine those who now live there want no more congestion, which means no more people.

What this transcribes to is longer and costlier entitlement proceedings. In the end rarely if ever is the project denied but often modified to respond to some group's objections.

Over the forty years I have been involved with Irvine the public attitude about new developments has changed from acceptance providing it is "planned" to virtually any proposed development. Thus when we began in 1960 our comprehensive and broad scale town and village planning was welcomed and we went through public hearings with little opposition. Today the scale and size of submittals necessitated for town planning tend to work against us because those who are opposed to any growth use the size of the planned development as an argument against it using terms like "massive new development." The facts are that the annual pace of residential growth in Irvine has changed little over the thirty-six years since the first house was built.

One of the consequence of all this is that new business growth is encouraged but housing for the new employees discouraged. Our original goal was to have a job to housing balance. Our concern was would we be able to attract enough jobs. The reality is that we've attracted far more jobs than we have housing to support. Politically that seems acceptable since the shortage of housing has driven up resale home prices, which are coveted by the existing residents.

In addition, the planning and entitlement process has become over-burdened by the requirement of overly technical reports that are time consuming, expensive and rarely understood by the public. A dramatic comparison between 1960 and now is the cost of Pereira's phase II plan upon which both the company and university respectively agreed to build the new town and campus. Pereira's plan was finished in four months and cost \$37,000. Our most recent coastal residential village, Irvine Cove, has less than 300 houses but costs over \$5 million to process.

In what ways was the company involved in resolving some conflicts of interests among the residences if any?

Most of time it is during the public hearings although we frequently meet with local residential groups who would be impacted by the project.

Was the community association a primary mechanism to mediate the conflicts among the residents and with the company?

No, originally they were created to manage the landscaped common areas within each development. Occasionally association representatives appear at the hearings expressing the views some of their members but not often. The reason is that most of our planning proposals are presented for a village before there are any associations governing them. A neighboring village and its association may object to some aspect of the plan depending on how it might affect their village.

Association leadership, however, has often been a stepping stone to run for city council or be appointed on the planning commission. North Carolina University conducted an extensive study of our associations in the early '70's. Among their conclusions was that association members considered their association as more responsive to their concerns than the city. Why? Because they concerned themselves with neighbor issues that impacted their lives while the city wouldn't involve itself in what to them was private non public matters.

Was there any other mechanism to resolve internal or external conflicts of interest?

Primarily "conflicts" are resolved at public hearings on specific plans. We do, however, often present our plans to neighboring community associations before we proceed through the public hearings.

I believe that the majority of American homeowners are very keen on the maximization of their property values. Does this orientation agree with the interest of the Irvine Company?

Absolutely!! The only way the values of the Irvine Company's properties increase is if the homeowner's values increase and visa versa. In focus study after focus study it has always been the strongest link between us.

If so, how do they ensure it?

Our polling over the years have shown that residents believe that the well being of the company is linked to theirs by the fact we continue to reinvest most of our funds in property on the ranch. A common remark during a focus study is for a resident to say "I don't believe the company would propose something that would hurt the value of my property because if it did it would hurt the value of theirs."

3) Coordination of Local and regional Interests: There were some local turf battles over newly developed communities as often seen elsewhere. The first such incidence was the incorporation of Irvine, I believe. According to my understanding, Santa Ana was coveting the annexation but the home-rule basically staved off their efforts. There was a similar incidence for the planned community Newport Coast. It was initially called Irvine Coast. It looks as though Newport Beach won over Irvine on these new properties. I only saw the documents by the Coastal Commission so I do not know the details. What was the process?

There are over 35 incorporated cities in Orange County. Regional interest, such as arterial roads, flood control, welfare and the court system are still managed by county government. The local cities can not overrule the county on these issues. Thus, Santa Ana's interest during the 60's in annexing some of the Irvine Ranch, the incorporation of the city of Irvine and the possible annexation of Newport Coast to the city of Newport Beach are NOT local versus regional issues. They are local issues.

Pereira's first plan for the city of Irvine included the position that it should ultimately incorporate as a separate city rather than annex to Santa Ana or any other city. As a condition of the University selecting the Irvine site agreements were reached with all surrounding cities, including Santa Ana, to not annex the future city's site. During the 1971 election by residents of Irvine to incorporate neither Santa Ana nor any other city raised an objection.

The reason the land for the Newport Coast development was not annexed by the company to Newport Beach prior to development is that the city has a traffic phasing ordinance that while working for small additions within the city would have prohibited the development we proposed for the Coastal property. Our public position at the time (and remains to this date) is that once developed if the residents of Newport Coast wish to annex to the city we will not oppose it. City and residents are now studying the matter. The city would like to annex it. The coastal residents are negotiating to determine what they would receive in exchange for the city taxes they would pay.

As for Newport Coast becoming a part of Irvine that has, to my knowledge, never been a consideration of the coastal residents. Before we began development the Irvine Mayor expressed interest to the Company in having Newport Coast become part of that city. I told the mayor that I did not support that position. Why? Because from the earliest days of our planning my position was that coast property and inland property have different climates, views, water districts, school districts and orientations. Our planning goal for incorporations or annexations was to align as many interests to the appropriate city as possible.

The boundary for the city of Irvine generally follows natural topographic contours and is mostly coterminous with the Irvine School District boundary. Adding the coastal property to Irvine violated basic planning principles we had expounded from the beginning. The mayor did not pursue the matter further.

As you also pointed out Irvine relies on water supply and other public services from regional suppliers. Are there any tension between the suppliers and the city?

The regional water server is the Metropolitan Water District, which is a regional wholesale water distributor throughout Southern California. Local water districts such as the Irvine Ranch Water District buy their water from MW&D and distribute it to local users. I know of no "tension" between the city and either MW&D or IRWD

The legal protection given by Contract City Law works in favor of small cities I believe and there is not much the provider can do.

What is your question? The city of Irvine doesn't provide water. The IRWD does and they are a separate governing agency. I'm unclear as to what your concern is.

The airport seems to be a new and unsettled battleground. El Toro Air Base conversion to a commercial airport seems to be giving much anxiety to the neighboring cities including Irvine. What is adding to their conflicts appears to me that the announcement made by L.A. to impose additional fee for the use of their international airport to the Orange County residents. Is this a part of on-going regional conflicts over who benefit and pay issues?

The El Toro airport debate has nothing to do with airport fees. An Orange County resident pays no more to fly out of L.A. International than a L.A. resident. Although proponents of the El Toro Airport refer to it as an international airport, studies I've seen indicate that if it was allowed to accept international flights few would use it. The cost of setting up customs inspections and other facilities needed for international flights are expensive. Since the airlines using them pay for them they don't want to pay for two locations in one metropolitan area.

The conflict over whether El Toro should become a commercial airport or not is primarily a local one. Cities surrounding the airport, particularly Irvine, don't want one because of noise, etc.. Newport Beach, which is concerned that if El Toro doesn't become a regional airport there will be pressure to expand the John Wayne airport, support the idea.

The problem in resolving it is that several years ago those who support commercializing El Toro sponsored a countywide referendum which declared that in any planning studies for the reuse of El Toro must assume that the "highest and best use" shall be a commercial airport. That referendum passed by 51% with the vote for dominated by Newport Beach and North County and opposed by all communities in South County.

Thus all the planning conducted by the county to-date assume it will be a commercial airport. The south county communities a new petition that requires any new airport built in the county must be put to a countywide vote and pass by a 2/3rds vote before it could be built. That referendum passed by over 65%. Recent polls indicate that now even the majority of residents in North County oppose commercializing El Toro.

Yes it is an example of regional versus local interest. It is also an example of how not to deal with such potentially divisive issues. The county planner's hands were tied by the first referendum and not allowed to give equal weight to non airport alternatives. This inflamed the southcounty folks.

4) Role of Master Plan

In what ways is the master plan effective?

It establishes the overall parameters against which all subsequent and more detailed plans must relate. We used the master plan to establish the idea they we intended to build a new city on a portion of our land and annex other portions to adjacent cities. We established the potential boundaries and population of the future city. It distributed the various land uses together with their potential ultimate populations which allowed design of the regional arterial roads, water reservoirs and size of feeder lines. It was the first and most overall comprehensive step in our planning of the ranch. The same is true for the various public agencies that are required by law to create master plans for all land within their jurisdictions.

By developing the areas in phases, I believe that the master plan has minimized the costs for the development of the infrastructures. Are there any data that substantiate the claim?

I don't agree that a master plan "minimizes" the cost of infrastructure. Indeed, in some cases it cost more because it shows that basic feeder lines need to be up-sized to accommodate future growth and regional road right-of-ways set-aside for future widening. Prior to master plans be required most such things were undersized.

Did the master plan also serve to maintain the balance between the supply and demand in the real estate market in Irvine?

No. A master plan that balances jobs and housing does not assure we will achieve it. Supply and demand is an economic balance. Allocation of different uses is a political process often without regard to the reality of supply and demand.

I believe that there has been a housing shortage in Irvine in general. Was it always the case?

No, in the beginning Irvine had few jobs and was primarily a bedroom community. The same is true of the county in 1960. Today the opposite is true for both the county and the city of Irvine. The reason: See my comments above on supply and demand.

If so, why did not the company speed up the pace of development?

We have developed as fast as the political process has allowed us. See above comments.

5) Provision of Local Public Goods

I believe that the Irvine Company built the streets originally and maybe still does. Do they transfer the right of way to the city after the completion of the development?

By ordinance we must dedicate the right of ways to both local and regional arterial roads prior to opening them up to the public.

If so, who covers the cost of development or maintenance?

As a condition of approval of our developments we are required to build the roads. Sometimes we have paid for them directly other times we have created public improvement districts that have sold bonds to cover the costs. In all cases the cost becomes part of the price of the housing, etc..

The county pays for maintenance of regional roads the city of local public roads. Revenue for their maintenance comes out of gas taxes that are distributed by the State back to local and county governments. Maintenance of private roads within guarded gated communities are paid for by local community association dues.

What about other facilities such as schools and recreational facilities such as swimming pools, gyms and parks?

Public schools are provided for and run by local school districts. They float their own bond issues for construction, receive help from the State and impose a tax on all property within their districts. Irvine Unified School District governs public schools from kindergarten through high school. The district was formed in the early '70's and its boundaries set then. We used our master plan of the future city to encourage that its boundaries follow as much as possible the future boundaries of the city.

Public recreational facilities are the responsibilities of the city. Other recreational facilities used exclusively by one neighborhood or one village (not open to the city at large) is maintained by the local community association. In most of the cases both public and community association recreation facilities are planned and build by either the Irvine Company or our builders with cost becoming part of the sales price of the homes in the area.

Ultimately the residents have to pay for it. What is the most efficient way of the development of these public goods in your experience?

The least costly way to the homeowner would be for the city to pay for them with the residents paying for them in their property taxes. Cities can float low interest loans to pay for them and the taxes are deductible for the homeowner. But in our tax adverse society that is not a politically viable alternative.

Housing Element Update

The General Plan of Irvine set out in 1990 does not include the housing element and I could not find any update or addition at the UCI library. Is it still missing? Or I just missed it?

You must have missed it. It was adopted and included in their master plan years ago as is required by State law. Check with the city.

There was some dialogue with Sacramento over the issue of low-income housing and bonus density, etc. I have not been able to follow the issues thoroughly from the archived documents. What was the contention and how was it settled?

In an attempt to encourage the building of more "affordable housing" the State wanted the city's housing element to allow greater housing densities if the developer sold a portion of the units below market prices. The concept is good where densities are quite low. But already the allowable densities in Irvine are relatively high and to increase them pushed the construction cost higher than any economic benefits from the higher densities. My recollection over the city/state debate over this idea also was that the city didn't want higher densities than they already allowed. Incidentally, Professor John Landis (UCB school of planning) is doing a State wide survey of sprawl and densities for PPIC. His preliminary results (I believe) indicate Orange County housing densities are already among the highest in the State.

We have built both for-sale and rental “affordable” units under most of the programs offered by the Feds. The most successful are those where we finance a rental project with low-interest state bonds in exchange for renting a portion the units at below market rates. We currently have a number of our rental project with such units available. The least successful have been the for sale units which are sold below market prices. It’s a good program for those who can’t afford the market price but when it comes time for them to sell they want to sell at the market price and capture the windfall just like their neighbors. At that time the affordable units disappear. Their political argument is: “why can’t the poor make a profit on the sale of their home just like the rich.”