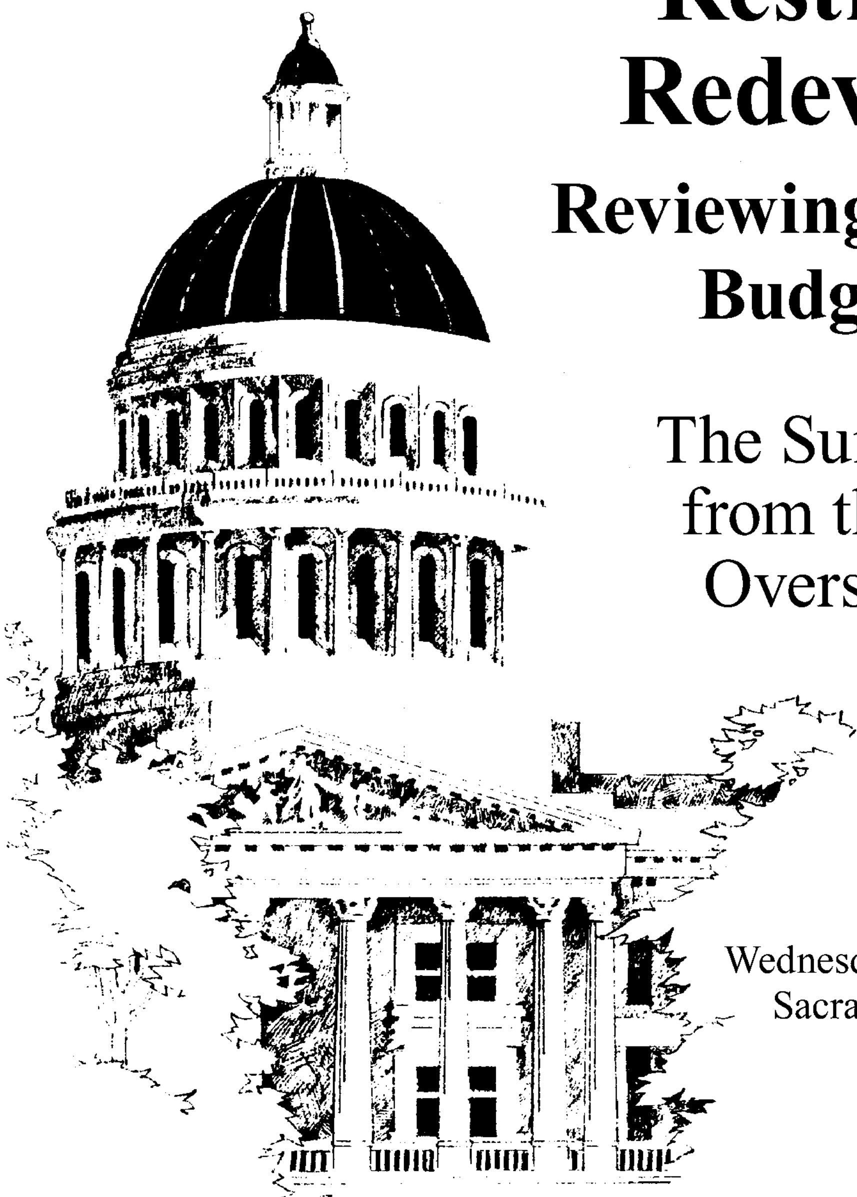
California State Legislature

Senate Committee on Governance & Finance

Restructuring Redevelopment:

Reviewing the Governor's Budget Proposal

The Summary Report from the Legislative Oversight Hearing



Wednesday, February 9, 2011
Sacramento, California

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COMMITTEE ASSISTANTS
MARISA LANCHESTER
KRIMILDA McKENZIE

CONSULTANTS
PETER M. DETWILER
TOBY EWING
COLIN GRINNELL
SAMANTHA B. LUI
GAYLE I. MILLER
BRIAN WEINBERGER

STATE CAPITOL, ROOM 408
SACRAMENTO, CA 95814
TEL (916) 651-4119
FAX (916) 322-0298

California Legislature

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on
Governance & Finance

LOIS WOLK
CHAIR

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Restructuring Redevelopment:
Reviewing the Governor's Budget Proposal
A Legislative Oversight Hearing

On Wednesday morning, February 9, 2011, the Senate Governance and Finance Committee held an oversight hearing on Governor Jerry Brown's budget proposal to end redevelopment agencies. The hearing at the State Capitol started at 9:45 a.m. and continued until 1:15 p.m. Over 125 people attended the hearing.

Six of the Committee's nine members participated:

Senator Lois Wolk, Chair
Senator Mark DeSaulnier
Senator Jean Fuller
Senator Loni Hancock
Senator Ed Hernandez
Senator Christine Kehoe

This report records who spoke at the Committee's hearing [*see the **white** pages*], reprints the Committee staff's briefing paper [*see the **blue** pages*], and reproduces the written materials provided by the speakers and others [*see the **yellow** pages*].

The Senate Sergeants-at-Arms audio-recorded the comments by the legislators and the other speakers. That recording is part of the Committee's official records of the February 9 hearing. A video recording of the entire hearing is available on the website of the California Channel: www.calchannel.com/channel/viewvideo/2030

The Speakers

The Committee's agenda listed 10 invited speakers and 27 other people also spoke to the legislators about the Governor's budget proposal. This section captures the highlights of their comments. The speakers whose names appear with an asterisk (*) provided written materials. The appendix reprints what the speakers gave the Committee. [*See the **yellow** pages.*]

State Treasurer **Bill Lockyer*** was the hearing's first speaker. He declared that he would be "a little less dispassionate" about redevelopment than the staff's briefing paper or the Legislative Analyst's report. Lockyer told the legislators that the state needs a clearer strategy for job creation, but redevelopment finance sometimes looks like a "three-card monte game" that moves public money around without certainty. Redevelopment can resemble "vampire agencies" that suck investments out of other programs, resulting in "bad deals and bad contracts." He challenged the legislators to ask "What is the taxonomy of priorities?" for spending the state's limited revenues. Lockyer gave the Committee colored bar charts that show the relative growth in inflation, property tax revenues, and property tax increment revenues. It may be better to "blow this up and start again," Lockyer said.

The Department of Finance's **Michael Cohen*** told the Committee that he wanted to put redevelopment into the context of the wider realignment discussion and the focus on finding the state government's core responsibilities. The Administration wants to return responsibility about decisions over locating new investment to local officials. The basic rationale for the Governor's proposal is to return money to local agencies and schools. Cohen sketched the key components of the Governor's proposal and then added that "redevelopment law would stay on the books" for local officials to use. **Senators Kehoe, Wolk, DeSaulnier**, and **Hancock** engaged Cohen with questions about the proposal's details.

Marianne O'Malley* presented the Legislative Analyst Office's most recent review of the Governor's redevelopment proposal. O'Malley started by explaining how present circumstances differ from 1952 when the voters amended the California Constitution to allow property tax increment financing. "In and of itself" redevelopment is not a problem, but the figures in the LAO's review show how complicated property tax increment financing has become. Another LAO analyst, **Mark Whitaker**, continued the briefing by declaring that the "Governor's proposal merits consideration" because it realigns benefits with costs and improves transparency, among other goals. However, the LAO disagrees with the Governor over the reallocation of property tax revenues to schools. The Governor's proposal would complicate an already complicated revenue allocation system. **Senators Wolk, DeSaulnier,** and **Hancock** raised questions with O'Malley and Whitaker about the research literature on redevelopment's effects on economic development.

Speaking for the California Redevelopment Association, **John Shirey*** declared that "we think that [the Governor's proposal] is a really bad idea" and is "probably unconstitutional." Regarding redevelopment's effects, Shirey told the legislators that the "best studies are done with your own eyes and ears." Eliminating redevelopment will reduce, not increase, state and local tax revenues. A better set of questions would be how to make redevelopment work for state and local governments. Redevelopment activities can help achieve the goals of AB 32 and SB 375, he said. AB 2531 (Fuentes, 2010) would have increased opportunities for energy efficiency and job creation. There can be more effective uses of affordable housing funds.

To "win the future," California needs programs that are job creating and job supporting.

On behalf of the League of California Cities, Pasadena's Mayor **Bill Bogaard*** told legislators that redevelopment was his city's "most significant tool" for downtown development. About 5,000 new residential units have been built in Pasadena over the last decade; 15% of them affordable. The new development complements the Orange Line transit system. Because physical blight is connected to economic blight, it would be "short-sighted" to end redevelopment. Any legislative changes must be constitutional and fair, said Mayor Bogaard.

Jean Hurst* told the Committee that the California State Association of Counties had "no formal position" on the Governor's redevelopment proposal, but counties have a "strong vested interest" in the allocation of property tax revenues. Hurst conceded that counties are split in their attitudes towards redevelopment. Some counties have their own redevelopment agencies, but they "gripe" about cities' redevelopment agencies. It's about "control and choice" over local revenues, she explained. County officials want the "greatest predictability and stability" for property tax allocations.

The California Budget Project's **Jean Ross*** gave legislators a copy of "What Does the Research Say About Redevelopment?" and a set of pie charts that compare redevelopment agencies' diversions of property tax increment revenues in 1977-78 and 2008-09. Her group is "not opposed to the continuation of local economic development," Ross explained, but legislators should approach the Governor's proposal in the context of the "absolutely horrendous" fiscal climate. Other local governments that rely on property tax revenues for services face a double effect: Proposition 13 reduced the amount of property tax revenues and redevelopment reduced the amount of property tax revenues that are available to schools. Consequently, the state government's costs mount. Other local governments have checks-and-balances on their revenue increases, but redevelopment agencies don't. Conceding that legislators "might want to mend, not end" redevelopment, Ross noted that Proposition 22 limits their choices.

Speaking for the California Special Districts Association, **Jo Mackenzie*** is also on the Vista Irrigation District's board of directors. She applauded the Governor's commitment to core spending, but noted that her Association has not adopted a formal position on the Governor's redevelopment proposal. When redevelopment officials divert property tax increment revenues, they may have city interests in mind, but not the interests of special districts. Districts can't opt-out, so they can't make informed decisions about the diversion of property tax revenues.

Although she spoke on behalf of the California Association of Housing Authorities, **La Shelle Dozier*** focused her remarks on the Sacramento Housing and Redevelopment Agency where she is the Executive Director. Dozier stressed three main points: (1) public housing and redevelopment are connected and interrelated, (2) redevelopment leverages federal housing dollars, and (3) there will be unintended consequences if redevelopment ends, as proposed by the Governor.

Following the invited speakers' statements, **Senator Wolk** posed questions to which **John Shirey** and **Bill Bogaard** responded. According to the Senator, "if it's not this proposal, it has to be something else." She also noted that Senator DeSaulnier's Senate Transportation and Housing Committee will hold a hearing on Tuesday, February 15 on "Redevelopment and Affordable Housing Finance."

Public Comment

Starting around 12:10 p.m., **Senator Wolk** invited public comment to supplement what the invited speakers had told the Committee members. Over the next hour, 27 people provided their own views.

The first speaker was **Assembly Member Chris Norby*** who complained that "predatory redevelopment continues," citing situations in San José, Cerritos, and Santa Ana, among other communities.

Suisun City Vice Mayor **Mike Hudson** told legislators that before redevelopment his community was the worst city in the Bay Area. Besides, he said, "we don't steal companies from other communities."

Dixon Mayor **Jack Batchelor** used an orchard metaphor to encourage legislators to reform redevelopment; fertilizing and trimming yields greater results. He said that Dixon's redevelopment decisions are open and transparent.

Julie Snyder spoke on behalf of Housing California, declaring that redevelopment agencies' $1 billion a year in low- and moderate-income housing funds is important to the cause of affordable housing. Her group is preparing alternatives to the Governor's proposal.

Randy Hicks spoke for Californians for Disability Rights, Inc. which is neutral on the Governor's proposal. Nevertheless, he worries about other budget cuts and the potential loss of redevelopment subsidies for affordable housing.

Rod Ferroggiaro is a Fairfield resident who is against the Governor's proposal. Redevelopment is part of the California Constitution, he said, and shouldn't go away with a "wave of a wand." Built by redevelopment, the Solano County Mall is "one of the jewels of the community."

A Suisun resident, **Lloyd Dashner**, is also against the Governor's proposal. His downtown was terrible before redevelopment.

Speaking for the CRLA Foundation, **Brian Augusta** asked legislators to think about what happens to housing if redevelopment goes away. Will the successor agencies protect the communities' unmet housing needs? How much of the redevelopment agencies' housing needs will be covered by the successor agencies?

James Nakamura owns a business in Vacaville and is against losing his property rights. He plans to vote "no" on tax extensions on the June ballot. Instead, he wants cuts to state employees and their unions.

Now a Montara resident, **Kathryn Slater-Carter** used to be a Fairfield property owner. She resented local officials who steered prospective purchasers to property located within Fairfield's redevelopment project area. Redevelopment officials then filed eminent domain proceedings against her vacant property. Later, officials had to sell her former property for less than its condemnation price. She supports the Governor's proposal.

Fairfield City Council Member **Catherine Moy** told legislators that her redevelopment agency passes-through $6.2 million to local schools. Her school district is "scared" about redevelopment going away. Redevelopment money built the PAL Center for at-risk children and tore down an entire neighborhood to get rid of crime. Fairfield opposes the Governor's proposal.

"I am free enterprise," declared Sacramento real estate broker **Karen Klinger**. There would be more affordable housing if redevelopment agencies didn't use eminent domain so much. Lobbying groups like the League of California Cities, the California State Association of Counties, and the California Redevelopment Association "work against us" with public funds, she declared. She supports the abolition of redevelopment agencies.

Jean Heinl* is a South Gate property owner who spoke on behalf of Californian's United for Redevelopment Education. As a property owner affected by redevelopment agencies' eminent domain actions, she and CURE have fought projects in several communities, including Riverside. They defeated redevelopment in South Gate in 1991, but it came back in 2009.

Vacaville Mayor **Steve Hardy** told legislators that his city opposed the Governor's redevelopment proposal.

Vacaville City Manager **Laura Kuhn** asked legislators to look at redevelopment's benefits and the big picture. Redevelopment helped Genentech locate its biomedical plant in her city, bringing 1,000 jobs to town. Of her redevelopment agency's $35 million in property tax increment revenues, $7 million goes to affordable housing with large pass-through payments to schools. Vacaville makes the county government's losses whole.

San Juan Capistrano City Council Member **Laura Freese** explained that her city's redevelopment agency funded 27 projects, including a train depot, parking and rest rooms in the historic Los Rios District, and 126 affordable housing units. She doesn't believe that alternative tools will work.

Woodland City Council Member **Bill Marble** is also the President of the Sacramento Valley Division of the League of California Cities. He urged legislators not to rush into a decision about ending redevelopment and not to pick a one-size-fits-all decision. He appreciated State Treasurer Lockyer's call for a taxonomy of spending priorities.

Riverside Mayor **Ron Loveridge** noted David Brooks' column which mentioned Edward Glaeser's new book, *Triumph of the City.* As the former president of the National League of Cities, Loveridge said that he knows that other states give their cities economic development tools. For California to close redevelopment "makes no sense."

Gretchen Lipow* is a retired teacher from Alameda who told the Committee about her community's fights against redevelopment projects proposed by large developers who want to rebuild the former NAS Alameda. She supports redevelopment reform.

Fullerton City Council Member **Bruce Whitaker** supports the Governor's redevelopment proposal because he thinks that California has "indulged" too much in property tax increment financing. A quarter of his city's territory is within redevelopment project areas.

Chuck Kingeter is a resident of Suisun City who agrees with the League of California Cities about redevelopment's success stories. Redevelopment has done a good job fixing crumbling infrastructure. But he also agrees with Michael Cohen and supports the Governor's redevelopment proposal. However, he wants more explanations about what happens after redevelopment.

Stephen Rhoads represents the Santa Ana Unified School District which supports the Governor's redevelopment proposal. Property tax increment revenues are a "free good" to redevelopment officials, sending $3.2 billion of the state's $90 billion budget goes to redevelopment.

José Trujillo* is a Vice President of AFSCME Council 36 in Los Angeles County who opposes the Governor's proposal. Redevelopment has lots of benefits, including significant positive benefits for the state's economy, he said. Legislators should redefine "blight," require redevelopment to focus on jobs, and increase the pass-through payments to schools. "Mend it, not end it," he declared.

Phillip Ciaramintaro is a Martinez resident active in the Citizens Against a Martinez Redevelopment Agency. He urged legislators not to allow any new redevelopment agencies, to make eminent domain voluntary, and to require premium relocation payments.

Jeremy Smith generally supported redevelopment on behalf of the State Building and Construction Trades Council. Although "abolition is not the way to go," he's ready to work on reform. Redevelopment spending helps local contractors hire local workers. It's better to get rid of "corporate welfare" like tax loopholes than to end redevelopment agencies.

Speaking for the California Building Industry Association, **Richard Lyon** said that he was "very concerned" about the Governor's proposal because redevelopment offers a framework for infill development in legacy communities and it will help to implement SB 375.

Keith Dunn spoke for his client, the California Housing Consortium, and reminded legislators that affordable housing is important and redevelopment is essential.

Senator Wolk ended the Committee hearing at 1:15 p.m.

Additional Advice

In addition to the 37 speakers, the Committee also received written advice from seven others. The ***yellow** pages* reprint their materials, presented by date:

La Palma Community Development Commission

Robert C. Leif, Ph.D., San Diego

Sherry Curtis, Mother Lode Tea Party Government Affairs, Plymouth

Dr. Kofi Sefa-Boakye, Compton Redevelopment Director

David Hewitt, Compton Assistant City Manager

Martin Mlikotin, California Alliance to Protect Private Property Rights, Folsom

Lee Delmanico, Marin Healthcare District, Greenbrae

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A Legislative Oversight Hearing

Wednesday, February 9, 2011
State Capitol, Room 112
9:30 a.m. to 12 noon

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Part One: Reviewing the Governor's Budget Proposal

This briefing paper prepares the nine members of the Senate Governance and Finance Committee for their February 9, 2011, oversight hearing on Governor Jerry Brown's budget proposal to eliminate redevelopment agencies.

In his January 31 state-of-the-state address, Governor Brown talked about his redevelopment proposal:

> *In recent days, a lot has been made of the proposed elimination of redevelopment agencies. Mayors from cities both large and small have come to the capitol and pressed their case that redevelopment is different from child care, university funding or grants to the aged, disabled and blind.*
>
> *They base their case on the claim that redevelopment funds leverage other funds and create jobs. I certainly understand this because I saw redevelopment first hand as mayor of Oakland. But I also understand that redevelopment funds come directly from local property taxes that would otherwise pay for schools and core city and county services such as police and fire protection and care for the most vulnerable people in our society.*
>
> *So it is a matter of hard choices and I come down on the side of those who believe that core functions of government must be funded first. But be clear, my plan protects current projects and supports all bonded indebtedness of the redevelopment agencies.*

The Committee's review supplements the Legislature's process for reviewing the fiscal effects of the Governor's Budget. Senate Budget Subcommittee No. 4 reviewed the redevelopment proposal on Thursday, February 3. On Monday, February 7, the Assembly Budget Subcommittee No. 4 plans to conduct its own review.

The February 9 hearing is the third in a series of hearings in which the Committee explores how public officials align their agencies' outcomes with the public revenues that support their activities. The hearing gives legislators a chance to look more closely at four questions:

- What did the Governor propose for redevelopment agencies?
- What questions should legislators ask before acting on that proposal?
- What are the consequences of eliminating redevelopment agencies?
- What are the feasible alternatives?

Redevelopment has literally changed the way that California looks; mostly for the better. Tens of thousands of affordable housing units, hundreds of thousands of square feet of commercial and industrial space, and hundreds of public buildings exist inside redevelopment project areas today because of six decades of work by redevelopment officials.

The state has two abiding interests in redevelopment --- substantive and fiscal.

> The state has a ***substantive policy interest*** in eliminating both physical and economic blight. No neighborhood should be left behind.
>
> The state has a ***fiscal interest*** in redevelopment's success because the State General Fund subsidizes community redevelopment agencies' projects.

For more than 60 years, redevelopment agencies have been major features on the fiscal landscape. Basic facts from 2008-09 sketch their importance:
- There are 425 redevelopment agencies; 389 are active.
- All cities with populations over 250,000 have redevelopment agencies.
- 94% of cities with populations over 50,000 have redevelopment agencies.
- 81% of all cities have redevelopment agencies.
- 31 of the 58 counties have redevelopment agencies; 26 are active.
- Redevelopment officials run 749 redevelopment agencies.

Part Two of this briefing paper offers a primer on redevelopment that outlines the basic features of the Community Redevelopment Law. See pages 8 to 18.

The Governor's Proposal

Released on January 10, as part of the "Tax Relief and Local Government" discussion, the Governor's Budget Summary proposed to:
- Dissolve community redevelopment agencies by July 1.
- Establish successor agencies to receive the property tax increment revenues.
- Give local officials alternative ways to promote economic development, including lowering the voter approval threshold for "limited tax increases and bonding against local revenues" to 55% voter approval.

For the Budget Year (2011-12), the Governor proposes that these successor agencies will pay for the redevelopment agencies' debt obligations ($2.2 billion). Further, schools and other local governments will continue to receive their required pass-through payments ($1.1 billion). Some of the property tax increment revenues will offset the State General Fund costs for Medi-Cal ($840 million) and trial courts ($860 million). The remaining $210 million will go to the underlying counties, cities, and special districts.

For future fiscal years (2012-13 and following), the Governor proposes that the successor agencies will continue to pay for the redevelopment agencies' debt obligations. County auditor-controllers will allocate the remaining property tax revenues to schools and other local governments, using the regular allocation formulas. However, the Governor proposes that these additional property tax revenues will not offset the State General Fund's Proposition 98 spending obligations to school districts and community college districts. Further, the counties will receive about $50 million in property tax revenues that would have gone to the water and sewer enterprise special districts.

The Governor also proposes to shift the balances in community redevelopment agencies' Low and Moderate Income Housing Funds to local housing authorities.

The State Department of Finance does not yet have detailed draft language that translates these proposals into specific statutory amendments. The Department intends to post the specific language to its website:
www.dof.ca.gov/budgeting/trailer_bill_language/financial_research_and_local_government/documents/

The Legislative Analyst's Assessment

On January 18, the Legislative Analyst's Office issued an assessment of the Governor's proposal, which included three broad observations about the current use of redevelopment:

- No reliable evidence that redevelopment agencies improve overall economic development in California.
- Redevelopment diverts property taxes from K-14 education and other local programs.
- Proposition 22 greatly constrains the state's authority to redirect redevelopment property tax revenues.

The LAO found four strengths in the Governor's proposal:

- Shifts responsibility for local economic development to local governments.
- Provides one-time General Fund relief.
- Shifts property tax revenue to core government responsibilities.
- Promotes transparency in future redevelopment activities.

The LAO's document also noted five limitations:

- Many details need to be resolved.
- Redevelopment debt costs unclear.
- Rationale for increased school funding not clear.
- Disproportionate impact on some local agencies.
- Future responsibility for Low- and Moderate-Income Housing not defined.

The LAO posted this nine-page review on its website:
http://www.lao.ca.gov/handouts/state_admin/2011/Redevelopment_1_19_11.pdf

What Legislators Should Ask

To better understand the Governor's proposal, the Committee members may wish to consider asking the speakers to answer the following questions:

Dissolving redevelopment agencies. The Community Redevelopment Law is the statutory implementation of the constitutional provision that allows the Legislature to provide for property tax increment financing.

Given Proposition 22, can redevelopment officials help balance the State General Fund without legislation that dissolves the community redevelopment agencies?

Anticipating the Governor's proposal to dissolve their agencies by July 1, are redevelopment officials issuing bonds and creating other debts?

Will the successor agencies pay for redevelopment agencies' debts other than bonded debt? What about redevelopment agencies' contracts with property owners, such as disposition-and-development agreements and owner-participation agreements? What about loans made by the underlying cities and counties to their own redevelopment agencies?

Will the successor agencies be the underlying cities and counties that created the redevelopment agencies or will they be new local entities which are composed of other local officials? Should county supervisors, school district trustees, and special district board members sit on these successor agencies?

Will cities and counties inherit their former redevelopment agencies' property management powers --- including eminent domain --- after the dissolution of the redevelopment agencies?

Budget year effects. The Governor's proposal distinguishes between the fiscal effects in the Budget Year (2011-12) and later years.

Is the Department of Finance's estimate of $2.2 billion in redevelopment debt obligations reasonable?

How can the Legislature direct former property tax increment revenues to pay for the State's Medi-Cal and trial court costs?

If redevelopment agencies cease on July 1, why should the successor agencies continue the former pass-through payments to schools, counties, and special districts?

Alternatively, why not distribute those former property tax increment revenues through the regular property tax allocation formulas?

Out-year effects. After the one-time effects during the 2011-12 Budget Year, the Governor's proposal treats the former property tax increment revenues differently, starting in 2012-13.

Why shouldn't the former property tax increment revenues that will go to schools and community colleges offset the State's Proposition 98 obligations?

Is the $50 million estimate accurate for the amount of former property tax increment revenues that the Governor proposes to further divert from water and sewer enterprise special districts to counties?

Does the reallocation of billions of dollars in former property tax increment revenues create the opportunity for the Legislature to overhaul the intricate and uneven property tax allocation formulas?

Affordable housing effects. Bills affecting redevelopment agencies' housing programs fall within the policy jurisdiction of the Senate Transportation and Housing Committee. Nevertheless, the Governor's proposal raises questions about who will manage the Low and Moderate Income Housing Funds if redevelopment agencies dissolve.

Does the proposed end of the redevelopment agencies mean an end to the requirement to set-aside 20% of the property tax increment revenues for low- and moderate-income housing?

Do some redevelopment agencies have unmet housing obligations that might not be fulfilled if the agencies dissolve?

Do local housing authorities have the capacity to assume redevelopment agencies' housing programs and funding?

Should the Legislature allow local housing authorities to delegate their duties to other local agencies, nonprofits, or new entities?

Measuring outcomes. Originally charged with the purpose of eradicating blight, redevelopment agencies have assumed additional missions over the last half-century. State officials monitor the agencies' financial transactions and housing programs. However, these annual state reports track only inputs and outputs, without rigorously measuring redevelopment agencies' results and outcomes.

How will legislators' constituents know if the Governor's proposal succeeds?

Does success consist of fully eliminating the redevelopment agencies? Does success mean increased funding for other spending priorities, including schools and local services?

If redevelopment agencies cease to exist, should state officials monitor the objective conditions of physical and economic blight?

What outcome requirements should the Legislature attach to the redevelopment successor agencies?

What are the standards for measuring the successor agencies' successes?

What are the time deadlines for the successor agencies to pay the principal and interest on the former redevelopment agencies' debts?

Should a state agency track the successor agencies' activities? The State Department of Finance? The State Department of Housing and Community Development (HCD)? The Governor's Office of Planning and Research (OPR)?

Should the Legislature authorize the state's monitoring agency to intervene if a successor agency can't or won't meet its time deadlines for acting?

Are there financial and other incentives or penalties to encourage the successor agencies' to act promptly and efficiently?

Economic development alternatives. If redevelopment agencies stop operating, there's still a need for local officials to promote local economic development.

If redevelopment agencies stop diverting property tax increment revenues and cities and counties receive greater allocations of property tax revenues, will they spend that money on local economic development? Local public services?

If redevelopment agencies stop operating, how can the Legislature promote local economic development?

Besides subsidies, what else can local officials do to attract and retain private investment? Do expedited development decisions and permit streamlining help investors? Do lower impact fees help investors? Do faster environmental reviews help investors? Do project labor agreements help local investors?

Do local officials support a constitutional amendment to reduce the voter-approval threshold from 2/3-voter approval to 55% voter approval for local general obligation bonds? For local limited obligation bonds? For local special taxes?

Do local officials support easing some of the statutory limits on Infrastructure Financing Districts?

Part Two: A Redevelopment Primer

The Community Redevelopment Law allows local officials to set-up redevelopment agencies, adopt redevelopment plans, and finance redevelopment activities. The Law repeatedly underscores the need for the public sector's intervention when private enterprise cannot accomplish the redevelopment of blighted areas.

Blight

Before redevelopment officials can wield their extraordinary powers of property tax increment funding and property management (including eminent domain), they must determine if an area is blighted. The definition of "blight," and how redevelopment officials apply it in specific local settings, is the pivot around which redevelopment powers turn. In other words, blight is the gateway to redevelopment.

Until 1994, state law did not explicitly define "blight." Instead, the statute described the characteristics of blight. This lack of statutory precision allowed local officials to adapt a statewide law to fit local circumstances. It also permitted some local officials to find blight where critics and the courts did not.

In 1993, the Legislature passed the most important redevelopment reform bill in a decade. AB 1290 (Isenberg, 1993) enacted the first statutory definition of blight. Reacting to the protests after the U. S. Supreme Court's *Kelo* eminent domain decision, the Legislature tightened the blight definition (SB 1206, Kehoe, 2006).

A blighted area must be predominantly urbanized with a combination of conditions that are so prevalent and substantial that they can cause a serious physical and economic burden which can't be helped without redevelopment. In addition, a blighted area must have at least one of four conditions of physical blight and at least one of seven conditions of economic blight.

Predominantly urbanized means that at least 80% of the land in the project area:

- Has been or is developed for urban uses (consistent with zoning), or
- Is an integral part of an urban area, surrounded by developed parcels.

The four *conditions of physical blight* are:

- Unsafe or unhealthy buildings.
- Conditions that prevent or hinder the viable use of buildings or lots.
- Incompatible land uses that prevent development of parcels.

- Irregular and inadequately sized lots in multiple ownerships.

The seven *conditions of economic blight* are:

- Depreciated or stagnant property values.
- Impaired property values because of hazardous wastes.
- Abnormally high business vacancies, low lease rates, or a high number of abandoned buildings.
- Serious lack of necessary neighborhood commercial facilities.
- Serious residential overcrowding.
- An excess of adult-oriented businesses that result in problems.
- A high crime rate that is a serious threat to public safety and welfare.

Property Tax Increment Financing

A redevelopment agency keeps the property tax increment revenues generated from increases in property values within a redevelopment project area. When it adopts a redevelopment plan for a project area and selects a base year, the agency "freezes" the amount of property tax revenues that other local governments receive from the property in that area. In future years, as the project area's assessed valuation grows above the frozen base, the resulting property tax revenues --- the property tax increment --- go to the redevelopment agency instead of going to the schools and the other underlying local governments.

Because of the intricate statutory formulas for allocating property tax revenues, this paper can't show legislators how redevelopment officials divert property tax increment revenues in particular redevelopment project areas. However, it is possible to offer a statewide summary.

Where would property tax revenues go, if not for the redevelopment agencies? In 2003-04 (the last fiscal year before the complicated Triple Flip and VLF backfill formulas) there were $26.6 billion in property tax revenues, excluding redevelopment:

57% of property taxes went to schools
21% of property taxes went to counties
12% of property taxes went to cities
10% of property taxes went to special districts

In 2008-09, redevelopment agencies received about $5.7 billion in property tax increment revenues. Applying the 2003-04 percentages to the 2008-09 revenues at a statewide level, it's possible to say that redevelopment agencies' total property tax increment revenues consisted of:

$3.2 billion from schools
$1.2 billion from counties
$671 million from cities
$519 million from special districts

Based on information supplied by redevelopment officials, the State Controller prepares annual reports of redevelopment agencies' property tax increment revenues. The State Controller's *Community Redevelopment Agencies Annual Report, Fiscal Year 2008-09* is available on the Controller's website: www.sco.ca.gov/Files-ARD-Local/LocRep/fy0809_redevelop.pdf

This table shows how the agencies' tax increment revenues have increased.

Redevelopment Agencies'
Property Tax Increment Revenues

1989-90	$1,019,439,000
1990-91	$1,178,936,000
1991-92	$1,349,007,000
1992-93	$1,541,197,000
1993-94	$1,576,832,000
1994-95	$1,543,524,000
1995-96	$1,449,813,000
1996-97	$1,500,548,000
1997-98	$1,623,635,000
1998-99	$1,761,991,000
1999-00	$1,945,744,000
2000-01	$2,140,446,000
2001-02	$2,510,529,000
2002-03	$2,755,590,000
2003-04	$3,059,293,000
2004-05	$3,445,711,000
2005-06	$4,056,710,000
2006-07	$4,560,735,000
2007-08	$5,364,630,000
2008-09	$5,676,517,000

To get the capital they need to carry out their activities, redevelopment officials issue property tax allocation bonds. Private investors buy the tax allocation bonds, providing redevelopment agencies with the capital to pay for public works, help developers, and support affordable housing. Over several decades, redevelopment officials use the property tax increment revenues that they divert from schools and other local governments to pay the principal and interest on their bonds. Private investors carry the economic risk that redevelopment may not fully succeed or may not succeed as quickly as planned. The greater the risk, the higher the bonds' interest rate, and the greater the public cost to borrow money with those bonds.

Redevelopment officials also create long-term debt by signing development contracts with property owners and builders, and they borrow money from the underlying city or county. Redevelopment agencies repay these debts by pledging the property tax increment revenues that come from the project area. By capturing property tax increment revenues over the decades, redevelopment agencies gain access to a generally steady, long-term revenue stream.

At the end of 2008-09, redevelopment officials told the State Controller that they had accumulated $29.4 billion in unmatured debt, of which $19.1 billion were their tax allocation bonds.

Once the tax increment revenues pay off these debts, the agency ceases to receive its share of tax revenues. The other local governments --- cities, counties, special districts, school districts --- then enjoy their earlier shares of the now-expanded property tax base.

The diversion of property tax increment financing never harms schools because the State General Fund makes up the missing revenues. The State General Fund automatically backfills the difference between what a school district receives in property tax revenues and what the district needs to meet its revenue allocation limit. When a redevelopment agency diverts property tax increment revenues from a school district, the State General Fund pays the difference.

Pass-Through Payments

State law allowed and now requires redevelopment officials to make pass-through payments to schools and other local governments to mitigate the long-term fiscal effects of property tax increment financing. Until 1994, redevelopment officials could bargain with the underlying school districts and other local governments about the amounts and durations of these payments. The 1993 Isenberg reform bill substituted a complex set of statutory formulas that now govern the pass-through payments by newer redevelopment project areas.

Redevelopment officials reported to the State Controller that they paid $1.2 billion in 2008-09 to counties, school districts, community colleges, special districts, and their own city governments. Schools can use some of these pass-through funds for capital improvements and deferred maintenance without offsetting the State General Fund's obligation to fully fund educational activities. Like the required set-asides for affordable housing, these pass-through payments reduce the amount of money available to redevelopment officials for economic development purposes.

Ubiquitous, Yet Concentrated

California's 425 redevelopment agencies operate 749 redevelopment project areas. Every big city (more than 250,000 residents) has a redevelopment agency; 81% of all cities have redevelopment agencies. Their project areas range from a mere two acres in size to more than 85,100 acres.

Although redevelopment activities seem ubiquitous, redevelopment finance is actually quite concentrated:

- Of the 425 agencies, 39 receive half of the property tax increment revenues.
- Of the 425 agencies, 35 spend half of the total redevelopment expenditures.
- Of the 425 agencies, 32 account for half of the total indebtedness.

Which are the top 10 redevelopment agencies in those categories?

Tax Increment	Expenditures	Indebtedness
1. Los Angeles	1. San José	1. San José
2. San José	2. Los Angeles	2. San Diego
3. San Diego	3. San Francisco	3. San Francisco
4. Oakland	4. Oakland	4. Los Angeles
5. Fontana	5. San Diego	5. Industry
6. Riverside County	6. Riverside County	6. Fontana
7. Rancho Cucamonga	7. Industry	7. Riverside County
8. Long Beach	8. Fontana	8. Santa Ana
9. Industry	9. San Marcos	9. Oakland
10. Palm Desert	10. Sacramento	10. Rancho Cucamonga

Affordable Housing

For over 30 years, state law has required redevelopment agencies to set aside 20% of their property tax increment revenues to increase, improve, and preserve the supply of affordable housing (AB 3674, Montoya, 1976).

The legislative responsibility for reviewing redevelopment agencies' affordable housing programs falls within the policy jurisdiction of the Senate Transportation and Housing Committee, not the Senate Governance and Finance Committee. Nevertheless, legislators can't appreciate redevelopment activities without understanding the basic requirements that redevelopment officials face.

Each redevelopment agency holds its affordable housing money in a Low and Moderate Income Housing Fund. State law sets income limits for persons and families (adjusted for family size) of low and moderate-income based on countywide median incomes.

When redevelopment officials fail to spend their Low and Moderate Income Housing Funds within prescribed time limits, the unspent money is called an "excess surplus." Redevelopment officials must either spend their excess surplus within two years, or give the money to the county housing authority to spend. Redevelopment agencies that fail to follow this law face statutory sanctions, including spending restrictions and a ban on creating new debts.

State law lists the Low and Moderate Income Funds' eligible uses. Redevelopment officials can spend their affordable housing funds inside or outside the project area that generated the property tax increment revenues. If they want to spend money from the Low and Moderate Income Fund outside the project area, local officials must find that the spending benefits the project area.

With rare statutory exceptions, a city's redevelopment agency must spend its Low and Moderate Income Funds inside its city limits and a county redevelopment agency must spend its affordable housing money in unincorporated territory. However, local officials can use joint powers authorities to pool their Low and Moderate Income Housing Funds, including a special program for San Mateo County's cities. There are also special exceptions for the Cities of Fairfield, Industry, Suisun City, Vallejo, Walnut Creek, and the Counties of Contra Costa, Orange, and Solano.

Statutory Time Limits

Another key reform of the Community Redevelopment Law Reform Act of 1993 was the creation of statutory time limits. The 1993 Isenberg bill distinguished between older redevelopment projects and projects with plans adopted after the bill's January 1, 1994 effective date.

The "effectiveness" of an older redevelopment project --- one with a plan adopted before January 1, 1994 --- must terminate 40 years after the plan's original adoption or January 1, 2009, whichever is later. After this time limit, local officials have no further authority to carry out redevelopment activities under the redevelopment plan, except to:

- Pay indebtedness.
- Fulfill affordable housing obligations.
- Enforce covenants and contracts.

These older redevelopment projects get another 10 years of property tax increment revenues after the end of the redevelopment plans' effectiveness.

In other words, the 1993 reforms gave local officials up to 25 more years of property tax increment revenues. They had 15 years to wind down redevelopment activities in their oldest project areas --- those formed before January 1, 1969 --- and then stop on January 1, 2009. Then they get 10 more years of property tax increment revenues, stopping the flow to the oldest project areas on January 1, 2019.

Time Extensions

After setting the statutory time limits, legislators recognized that redevelopment agencies needed flexibility. Three statewide bills allow redevelopment officials to extend their statutory time limits, plus special provisions for San Francisco (SB 2113, Burton, 2000), Los Angeles (AB 2805, Ridley-Thomas, 2004), and San Diego (SB 863, Senate Budget Committee, 2010).

Compensating for property tax shifts. To help with State Budget problems, the Legislature permanently shifted property tax revenues from counties, cities, and special districts to schools through a mechanism called the Educational Revenue Augmentation Fund (ERAF). In specific fiscal years, the Legislature also required redevelopment agencies to give up some of their annual property tax revenues to ERAF and the Supplemental Educational Revenue Augmentation Fund (SERAF). Recognizing that these annual shifts could interfere with a redevelopment agency's ability to repay its debts, the Legislature allowed redevelopment officials to extend the statutory time limits on their older project areas.

Affordable housing obligations. Worried that some redevelopment project areas might reach their statutory deadlines without having fulfilled their obligations to provide affordable housing, the Legislature clarified that redevelopment agencies must meet their housing obligations before they terminate project areas. State law suspends the time limits on a redevelopment plan's effectiveness and on the diversion of property tax increment revenues to repay its debts until the redevelopment agency "has fully complied with its obligations" (SB 211, Torlakson, 2001).

Pockets of blight. Because pockets of persistent blight remained in some older project areas, redevelopment officials convinced legislators to allow them extend these statutory time limits (SB 211, Torlakson, 2001). Specifically, redevelopment officials can extend the time limits that apply to their older project areas for:

- The plan's effectiveness for 10 more years.
- Receiving property tax increment revenue for 10 more years.

To amend the redevelopment plan and extend the time limits, the city council must make two findings, based on substantial evidence:

- Significant blight remains.
- That blight can't be eliminated without extensions.

During a time extension, state law focuses the redevelopment agency's spending on affordable housing to low and very low income housing.

Redevelopment Continues

Even with the time deadlines set by the 1993 reform bill, but because of the permitted extensions, some of the oldest project areas continue to operate and to receive property tax increment revenues:

Year Established	Project/Agency	Effectiveness Time Limit	Tax Increment Time Limit
1948	Western Addition No. 2 San Francisco	2009	Still receiving to replace housing
1950	Merged Downtown Sacramento	2021 & 2024	2031
1955	Pilot Richmond	2012	2022
1956	South of Market San Francisco	2009, 2020 & 2027	Still receiving to replace housing

Established	Project/Agency	Effectiveness Time Limit	Tax Increment Time Limit
1959	Merger Project No. 1 Fresno	2022	2032
1959	Bunker Hill Los Angeles	2012	2022
1959	Merged Downtown Richmond	2012 in phases until 2035	2022 in phases

Local Economic Development Alternative

Although redevelopment agencies' property tax increment revenues are the largest revenue stream to support local economic development, cities and counties have other ways to accumulate public capital.

Cities and counties can create Infrastructure Financing Districts (IFDs) to pay for regional scale public works (SB 308, Seymour, 1990). IFDs can divert the non-school shares of property tax increment revenues to finance highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks, and solid waste facilities. IFDs can't pay for maintenance, repairs, operating costs, and services. Unlike redevelopment project areas, the property in an IFD doesn't have to be blighted. IFDs and redevelopment agencies' project areas can't overlap.

Forming an IFD is cumbersome. The city or county must develop an infrastructure plan, send copies to every landowner, consult with other local governments, and hold a public hearing. Every local agency that will contribute its property tax increment revenue to the IFD must approve the plan. Schools can't shift their property tax increment revenues to the IFD. Once the other local agencies approve, the city or county must still get the voters' approval to:

- Form the IFD (2/3-voter approval).
- Issue bonds (2/3-voter approval).
- Set the IFD's appropriations limit (majority-voter approval).

Until the Attorney General's 1998 opinion, local officials were reluctant to form IFDs because they worried about the constitutionality of using tax increment revenue from property that was not within a redevelopment project area.

Because an IFD is legally separate from the city or county, it's similar to a community redevelopment agency. Like a redevelopment agency, there is no constitutional requirement for 2/3-voter approval to form an IFD or to issue bonds. The requirement for 2/3-voter approval is not based on any constitutional requirement, but instead represents the political comprise that legislators struck in 1990.

With amendments, the IFD Law could be a partial substitute for redevelopment agencies' property tax increment funding. In this way, an IFD would allow local officials to fund local economic development with local property tax increment revenues. The Legislature could:

- Eliminate the statutory requirement for voter approval to form an IFD.
- Eliminate the statutory requirement for voter approval to issue IFD bonds.
- Extend the term of IFD bonds from 30 years to 40 years.
- Expand the activities that IFDs can fund to economic development programs, not just public works.
- Allow IFDs to divert property tax increment revenues from other local agencies (but not schools), unless the other agencies protested.

Legislators may also wish to consider allowing IFDs to divert property tax increment revenues from schools, but only if local officials convinced state officials that the project will produce a net positive gain for the State General Fund.

Some of these proposals were in AB 1836 (Feuer, 2008) which died in the Senate Local Government Committee.

Other Capital Financing Alternatives

Redevelopment agencies' tax allocation bonds are the last way that local officials can incur long-term debt without voter approval, making them politically more attractive than these alternatives:

General obligation bonds. Cities and counties must get 2/3-voter approval before issuing general obligation bonds which they repay by imposing an ad valorem property tax rate on top of the standard 1% property tax rate. G.O. bonds can pay for local public works projects. Because property tax revenues back G.O. bonds, they pose low risk for investors and, therefore, involve low interest rates.

Limited obligation bonds. Cities and counties must get 2/3-voter approval before issuing limited obligation bonds which they repay by dedicating a fraction of their existing general fund revenues. Local officials can back their LOBs with property tax revenues or sales tax revenues to raise the capital needed to pay for local public works projects. LOBs may involve slightly higher risks for investors, depending on the reliability of the local government's revenue stream.

Revenue bonds. Cities and counties need majority-voter approval before issuing revenue bonds which they repay from the revenues generated by enterprise activities such as parking garages, water systems, or airports. Revenue bonds create the public capital to finance those public projects. Because government-run business enterprises may not produce steady revenue streams during all economic cycles, investors may require local officials to pay higher interest rates to cover the increased risk.

Mello-Roos Act bonds. Cities and counties must get 2/3-voter approval to issue bonds under the Mello-Roos Community Facilities Act to pay for public works projects, usually for new development. If the area is legally uninhabited (less than 12 registered voters), the landowners may vote instead. Revenues from parcel taxes (a flat amount per parcel, regardless of its size or use) pay for the Mello-Roos Act bonds. Land-based bonds like Mello-Roos Act bonds usually require higher interest rates because of the risk that land development may not occur.

Assessment bonds. Cities and counties need property owners' weighted-ballot approval before issuing bonds backed by special assessments. Each property owner pays in direct proportion to the special benefit received from the public projects financed by the assessment bonds. Property owners cast ballots that are weighed according to their proposed assessments.

COMMITTEE ASSISTANTS
MARISA LANCHESTER
KRIMILDA McKENZIE

CONSULTANTS
PETER M. DETWILER
TOBY EWING
COLIN GRINNELL
SAMANTHA B. LUI
GAYLE I. MILLER
BRIAN WEINBERGER

STATE CAPITOL, ROOM 408
SACRAMENTO, CA 95814
TEL (916) 651-4119
FAX (916) 322-0298

California Legislature

Senate Committee on Governance & Finance

LOIS WOLK
CHAIR

February 4, 2011

TO: Chair and Members
Senate Governance and Finance Committee

FROM: Peter Detwiler

SUBJECT: Where would property tax revenues go, if not for the redevelopment agencies?

Because of the intricate statutory formulas for allocating property tax revenues, the Committee's staff can't show legislators how redevelopment officials divert property tax increment revenues in particular redevelopment project areas. However, it is possible to offer a statewide summary.

In 2003-04 (the last fiscal year before the complicated Triple Flip and VLF backfill formulas) there were $26.6 billion in property tax revenues, excluding redevelopment:

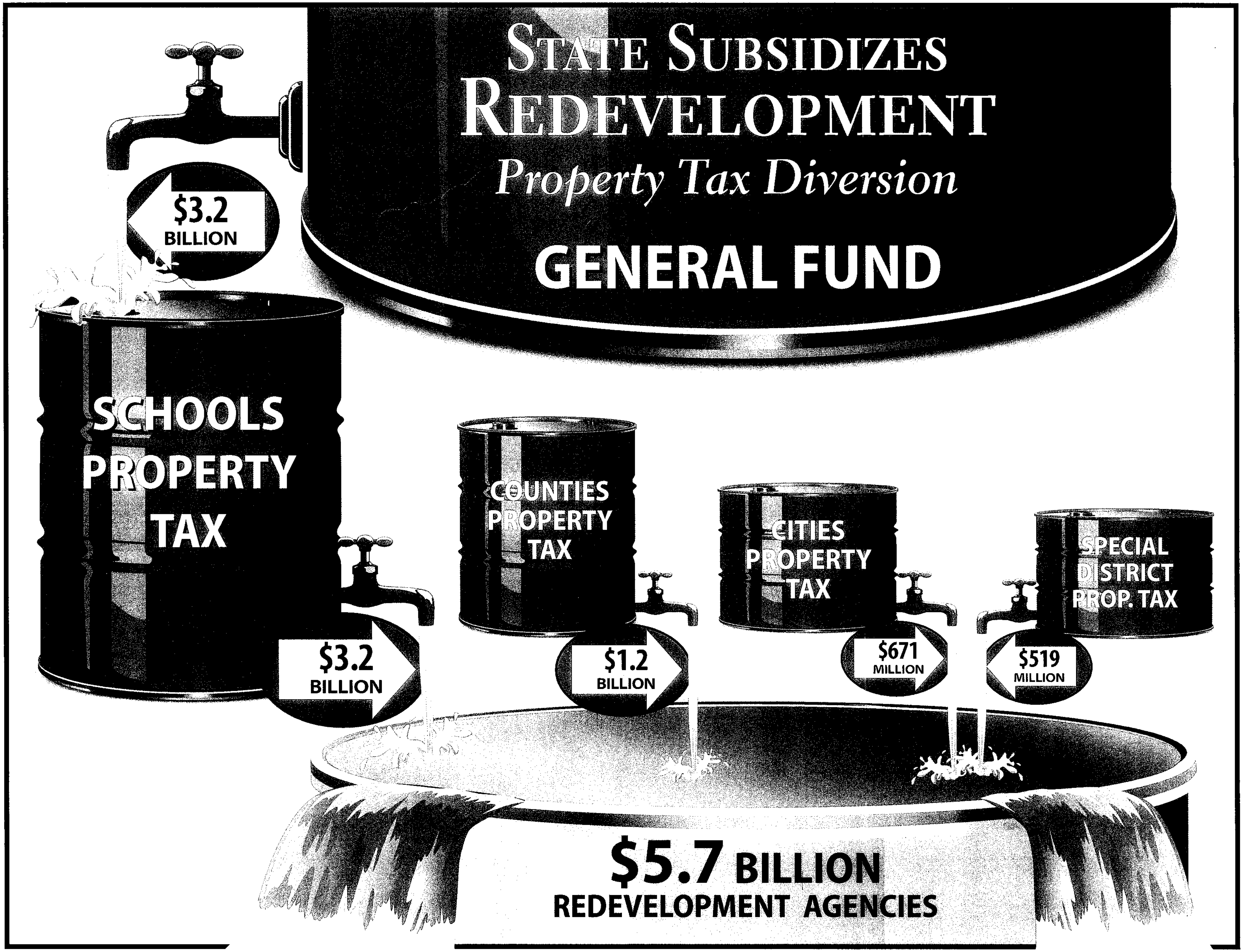
57% of property taxes went to schools
21% of property taxes went to counties
12% of property taxes went to cities
10% of property taxes went to special districts

In 2008-09, redevelopment agencies received about $5.7 billion in property tax increment revenues. Applying the 2003-04 percentages to the 2008-09 revenues at a statewide level, it's possible to say that redevelopment agencies' total property tax increment revenues consisted of:

$3.2 billion from schools
$1.2 billion from counties
$671 million from cities
$519 million from special districts

The attached chart shows those flows, but doesn't attempt to show redevelopment agencies' pass-through payments, property tax shifts to schools, or affordable housing set-asides.

Attachment


STATE SUBSIDIZES
REDEVELOPMENT
Property Tax Diversion
GENERAL FUND
$3.2 BILLION
SCHOOLS PROPERTY TAX
$3.2 BILLION
COUNTIES PROPERTY TAX
$1.2 BILLION
CITIES PROPERTY TAX
$671 MILLION
SPECIAL DISTRICT PROP. TAX
$519 MILLION
$5.7 BILLION
REDEVELOPMENT AGENCIES

COMMITTEE ASSISTANTS
MARISA LANCHESTER
KRIMILDA McKENZIE

CONSULTANTS
PETER M. DETWILER
TOBY EWING
COLIN GRINNELL
SAMANTHA B. LUI
GAYLE I. MILLER
BRIAN WEINBERGER

STATE CAPITOL, ROOM 408
SACRAMENTO, CA 95814
TEL (916) 651-4119
FAX (916) 322-0298

California Legislature

Senate Committee
on
Governance & Finance

LOIS WOLK
CHAIR

Restructuring Redevelopment:
Reviewing the Governor's Budget Proposal

Written Materials Received by the Committee

SENATE GOVERNANCE AND FINANCE COMMITTEE

Restructuring Redevelopment:
Reviewing the Governor's Proposal

TALKING POINTS

<u>**"Our Money – Your Money"**</u>

It's not constructive for political leaders, local or state, to frame the budget debate as "our money versus your money."

Not only is it counterproductive, it ignores fundamental fiscal realities that have existed in California for decades.

The days when you could neatly divide government finances into pots of local money and state money became a bygone era in 1979, when the State started bailing out local governments after voters adopted Proposition 13.

Prop 13 left to the Legislature the constitutional authority to allocate property taxes, except to the extent subsequent ballot measures have locked down portions of that revenue – Prop 98, Prop 22 and multiple Prop 1As.

The State allocates the residual property tax among schools and local governments because Howard Jarvis and Paul Gann left that decision to the Legislature.

And the courts have upheld that principle.

Just look at the QUOTE "State Budget" UNQUOTE. In the 2011/12 budget year, more than 70 percent of the State General Fund will be allocated to local agencies, including schools.

So, we all should get past talking about "our money" and "their money." It's really shared money.

And we share responsibility and accountability for how it's raised and how it's spent.

<u>Governor's Plan – Consistent with Constitutional Authority, Prop 13 Framers' Intent and Realignment of State-Local Relationship</u>

Critics of the Governor's plan say it amounts to stealing local government funds and giving them to the State.

That argument doesn't hold water.

One, the proposal is fully consistent with the tax allocation authority placed with the Legislature by Prop 13.

Two, the Governor does not propose to take money that belongs to any one entity. He proposes to reallocate money we all share in the post-Prop 13 world.

Three, and perhaps most important, the plan does just the opposite of robbing local agencies.

It <u>provides</u> billions of dollars of <u>extra</u> money to schools, cities, counties and special districts – money that used to go to them, but now is retained by redevelopment agencies.

Also, the Governor's redevelopment proposal fits perfectly as a component of his broader plan to shift responsibilities, and funding to carry out responsibilities, from the State to local governments.

It provides immediate and long-term increased revenues to schools, cities, counties and special districts, and lets them spend the money as they see fit with no mandate strings attached.

And the amount of extra property tax money increases with time, as redevelopment agencies retire their debt.

<u>Redevelopment and Economic Development</u>

The State and local governments should share responsibility for economic development.

For its part, the State must develop a more effective, more efficient and more unified strategy to help business create jobs, and help California compete with other states and global economies.

With respect to local economic development, there must be a better way to accomplish these goals than through the current redevelopment system.

As you will hear from others today, independent research and analyses have raised legitimate questions about whether redevelopment provides a net, statewide economic benefit to California.

Critics say it mainly serves to rob Peter to pay Paul in a zero sum game.

For you, as policymakers, that critique can be framed as questions along these lines: How does it serve the interests of California for the State to allow local property tax revenues it allocates to be used to incentivize inter-regional competition?

How is it responsible to maintain an economic development strategy that results in Victorville luring a manufacturing plant from Visalia, or in Pomona convincing a Target store to locate there instead of West Covina?

Redevelopment does not provide efficient government

We all want to make government more efficient. That's another reason to carefully reexamine redevelopment.

Part of maximizing government efficiency is to make sure the folks who spend the money also have direct responsibility for raising it.

Our redevelopment system violates that principle. It allows one local government, through a redevelopment agency, to make spending decisions that unilaterally shift revenue away from other local governments.

In other words, current redevelopment law allows local governmental agencies to "externalize" a portion of their economic development decisions.

This cost shift tends to distort public finance decisions, and leads to inefficient use of tax dollars.

To make government more efficient, decisions to spend tax dollars should be financed entirely by the entity making the spending decision.

The Governor's proposal would move us in that direction by allowing local voters to approve tax increases or bonds to finance economic development.

Question of Spending Priorities

We can argue the pros and cons of redevelopment all day – and maybe you will.

But given the severe fiscal problems we face at both the state and local level, the real issue is not whether redevelopment is good or bad.

The real issue is where it stacks up as a spending priority.

We are denying children health care. We're taking away their teachers. We're slashing assistance to the most vulnerable people in our state. Our communities are losing cops and firefighters. We're shutting parks and libraries.

And we're supposed to take billions of dollars we could use to help fund these services and keep giving it to redevelopment agencies?

From fiscal year 1997-97 through 2008-09, redevelopment agencies received $40.4 billion in property tax revenue. (per State Controller's Office annual reports)

Of that, they kept for themselves $33.2 billion.

Without the tax-increment financing system created for redevelopment agencies, that's $33.2 billion that would have gone to schools, cities, counties and special districts.

That's a lot of teachers, cops and firefighters.

From 1989-90 through 2008-09, statewide property tax revenue rose from $14.72 billion to $49.84 billion.

Meanwhile, the total property tax allocated to redevelopment agencies increased from $1.02 billion to $5.68 billion.

So over the same period, statewide property tax revenues increased by 239 percent, while redevelopment agencies' share of that revenue increased by 457 percent.

The data show a similar wide disparity when it comes to the property tax revenue redevelopment agencies retained, and did not pass through to other local governments and schools.

From 1996-97 through 2008-09, redevelopment agencies' net property tax allocation (after pass throughs) increased from $1.28 billion to $4.44 billion.

Over the same period, statewide property tax receipts went up from \$19.74 billion to \$49.84 billion.

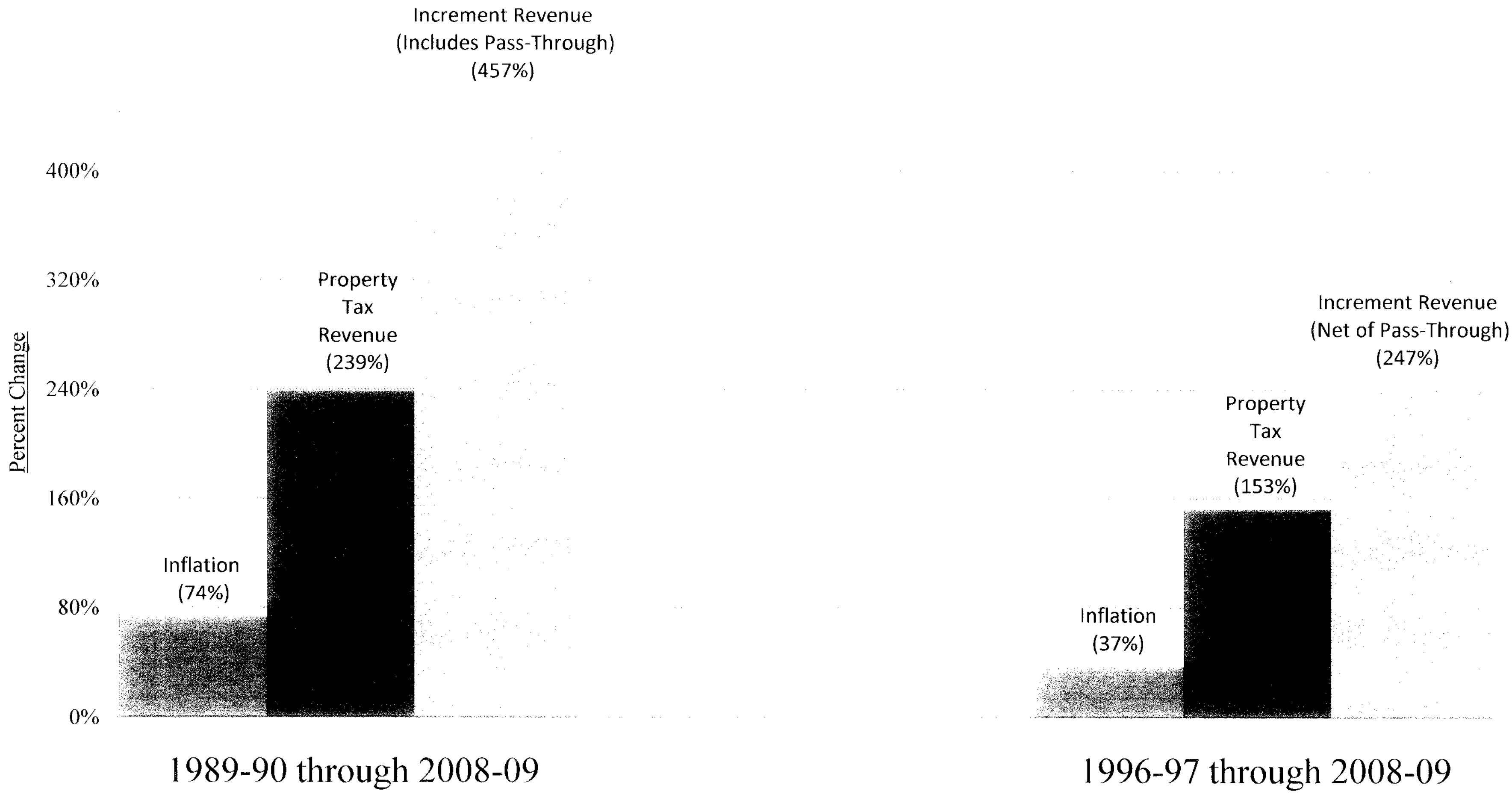
So, redevelopment agencies net take increased by 247 percent while statewide receipts grew by 153 percent.

The State and local governments simply cannot afford to continue letting so much money be siphoned from essential services.

Regardless of the merits of redevelopment, it is not a core government function. Education, public safety, health care – these are core government functions.

They should have priority over redevelopment agencies. Ultimately, that's why the Governor's plan makes sense.

Percent Change
Inflation, Property Tax Revenue and Redevelopment Increment Revenue



Sources--
Inflation: US Bureau of Labor Statistics
Property Tax Revenue: Board of Equalization Annual Reports
Increment Revenue: State Controller's Office & Senate Governance and Finance Committee

State Treasurer Bill L

TAX RELIEF AND LOCAL GOVERNMENT

The primary focus of state and local government is to provide basic services, such as public safety, education, a safety net of health care and human services, transportation, safe water and other public infrastructure. These services provide the foundation that enables private businesses and families to flourish.

STATE SUPPORT FOR LOCAL ECONOMIC DEVELOPMENT

For states, economic development activities have two primary motivations. One is to help provide the platform for sustained statewide economic growth. The second is to assist local communities, particularly those that may have been disadvantaged in some way, to overcome blight conditions and provide enhanced growth of business opportunities in designated areas. Both types of efforts can help provide private income as well as enhance tax collections under existing rates.

States are more constrained than nations in what they can do to stimulate economic development. California's Constitution forbids the state from adopting budgets that plan for deficits. Thus, the state cannot provide stimulus by borrowing as the federal government does. States must balance assistance to private business against all of the other priorities, including provision of basic services.

States can provide certain incentives to business activities that are intended to provide more statewide growth, either through direct expenditures (e.g. stem cell research) or through the structure of the tax system, (e.g. "tax expenditures" such as the research and development tax credit). Providing a differential in treatment for these types of activities may provide both public and private dividends in future years because these activities have more potential to provide rapid economic growth than other business investment.

At the local level, land use regulation is key to the long-term economic growth of communities. While the state sets a legal framework, local government entities are responsible for implementing it. California is a vast state with many variations in conditions. Inherently, some geographical areas have advantages for certain land uses that others do not, and existing land uses often will help make related uses successful.

Given the state's significant ongoing budget problem, it is necessary to examine state funding for all programs. The Budget proposes a different method for local government to engage in local economic development activities, eliminates state tax benefits for Enterprise Zones, and proposes major changes in the way local redevelopment is funded and operated. See the Revenue Estimates chapter for a more detailed discussion of the Budget's Enterprise Zone proposal.

Redevelopment

Proposition 13 reduced local property tax revenues by 57 percent. After the passage of Proposition 13, the state shifted costs to itself and later provided new revenues to local government to partially replace this revenue loss. About 37 percent of property tax revenues currently funds K-14 school obligations under Proposition 98, offsetting what would otherwise be state General Fund costs. The balance of property taxes are distributed as follows: cities receive 18 percent, counties almost 25 percent, special districts 8 percent, and redevelopment agencies 12 percent. The receipts of individual local entities may vary greatly from these statewide percentages depending on what their shares of property tax were when property tax was reallocated following the adoption of Proposition 13.

The expansion of redevelopment agencies has gradually shifted property tax away from schools, counties, special districts, and city general purposes. Redevelopment agencies receive most of the growth in property tax revenue from within their boundaries, including the growth that would otherwise be allocated to agencies providing services in the redevelopment area—such as schools—that do not have a role in creating or governing them. Some of the growth revenue is "passed through" to the jurisdictions that provide services through locally negotiated agreements and under state law in certain circumstances.

Redevelopment is designed to eliminate blight. The California Community Redevelopment Law (CRL), which was first enacted in 1945 and substantially expanded in 1951, allows cities and counties to establish redevelopment agencies (RDAs) to address blight. Originally, the main tool of redevelopment was the use of eminent domain to acquire private properties, demolish dilapidated and unusable structures, clean up the land, and consolidate small parcels and then make the larger property available for development. The CRL prescribes a complex process for RDA establishment consisting of findings of blight pursuant to statutory definitions, public notifications, and public hearings. RDAs are established by a vote of the governing body of the sponsor agency. These ordinances are potentially subject to referendum votes of sponsor agency voters but are not subject to any approval by governing bodies or voters of jurisdictions that share the same territory. RDAs have statutory limits on the number of years they can create debt and for the total lifetime of the project. Relieving blight is intended to be accomplished in a limited time. RDAs were not intended to become a permanent source of business subsidies.

In 1952, voters approved a constitutional amendment to allow tax increment to fund redevelopment projects and to be pledged for repayment of bonds. The ballot analysis and arguments implied that the expense of redevelopment would otherwise come from the general funds of the sponsor agency and that "this constitutional amendment makes it possible for the entire amount advanced out of public funds to be reimbursed out of taxes on the increased valuation of the property after improvement. In other words, the property will carry itself, and the expenses will be paid out over a term of years." This implied the tax increment was solely the amount of increase in value caused by the redevelopment of specific properties.

Over time, most of the increase in value of all of the properties in the redevelopment area has been generally the result of inflation in the economy and of property values. This increase in value is tax increment that goes to the redevelopment agency. There is no growth in assessed value for the county, school districts, community college districts, or special districts that also serve the redevelopment territory. Over the 40 or more years of life for a typical RDA, this shift of revenue can dwarf base property tax revenue.

In 1998, the Public Policy Institute of California (PPIC) published "Subsidizing Redevelopment in California", one of the few independent studies to examine the fiscal impact of redevelopment. The PPIC found that "...fewer than one-quarter of the (redevelopment) projects came close to being responsible for the property taxes they received. These projects were also the ones with the most vacant land."

Redevelopment agencies are supposed to help build affordable housing. RDAs are required to devote 20 percent of their income to building low-income housing. Many RDAs have large balances in their housing funds and have not developed housing. Despite efforts to provide for the expenditure of these funds for housing, large balances persist.

Most development in RDAs is shifted from elsewhere in the state. The private development that occurs in redevelopment project areas often would have occurred even if the RDAs were never established. There is little evidence that redevelopment projects attract business to the state. Studies indicate most of the business development is simply shifted from elsewhere in the state. While this may help relieve localized blight and equalize economic activity relative to nearby communities, there are better alternatives for local entities to fund these efforts without shifting resources from schools, counties, special districts, and core city services.

This revenue could be funding basic public safety services and augment school funding. Cities, counties, special districts, and K-14 schools are losing billions of dollars in property tax revenues each year to subsidize redevelopment. The Department of Finance estimates that under current law, RDAs will divert $5 billion in property tax revenue from other taxing agencies in 2011-12. Of this amount, $1.1 billion is passed through to the agencies providing services in the area. This reduces funding needed for law enforcement, fire protection, road maintenance, parks, libraries, and other local services. Furthermore, the state General Fund must backfill the property tax revenues diverted from K-14 schools, at a cost of approximately $1.8 billion dollars per year.

Economic growth is not likely to rescue basic local services. Law enforcement, fire protection, emergency response, and other services funded from local general revenues have been reduced substantially and face the potential of deeper reductions in the near future. While property tax revenues are expected to stabilize and stop declining by next year, sales tax revenues and property tax revenues will not recover to pre-recession levels for many years. Inflation is likely to be low for some time. However, cost pressures will remain. Economically driven growth in sales tax and property tax is unlikely to provide much real spending power improvement for local government in the foreseeable future.

The Budget proposes a new approach to fund economic development activities at the local level and phases out the current funding mechanism for redevelopment agencies. This proposal will return billions in property tax revenues to schools, cities, and counties. These funds will help sustain core functions including law enforcement, fire protection, and education. Below is a summary of the proposal:

- **Change redevelopment funding: Provide improved options to fund local economic development with voter approval.** The Budget proposes a new financing mechanism for economic development. Specifically, the Budget proposes that the Constitution be amended to provide for 55-percent voter approval for limited tax increases and bonding against local revenues for development projects such as are currently done by RDAs. Voters in each affected jurisdiction must approve use of their tax revenues for these purposes.
- **Shift existing redevelopment taxes to core local services**. The Budget prohibits existing agencies from creating new contracts or obligations effective upon enactment of urgency legislation. By July 1, existing agencies would be disestablished and successor local agencies would be required to use the property tax that RDAs would otherwise have received to retire RDA debts and contractual obligations in accordance with existing payment schedules. This is estimated to cost $2.2 billion in 2011-12. Finance estimates $3 billion will remain after these debt service and contractual payments. From this remaining amount, one-time payments estimated at $1.1 billion will be provided equal to the pass-through payments that otherwise would be received. Of the remaining $1.9 billion the Governor's Budget directs $1.7 billion on a one-time basis to offset state General Fund costs for Medi-Cal ($840 million) and trial courts ($860 million). The final $210 million will be distributed on a one-time basis to cities, counties, and special districts proportionate to their current share of the countywide property tax.
- **Provide revenues for core local services.** Beginning in 2012-13, the amounts remaining after payment of pre-existing RDA debts and contractual obligations will be distributed to cities, counties, non-enterprise special districts, and K-14 schools in amounts proportionate to their share of the base countywide property tax. The only exception is that roughly $50 million that would otherwise be distributed to enterprise special districts (mainly water and waste disposal districts) will instead be provided to counties. Enterprise special districts are mainly fee-supported.

In 2012-13, this is expected to result in an increase in annual local revenues (over the amounts they would have received in pass-throughs) of approximately $1.0 billion for schools, $290 million for counties, $490 million for cities, and $100 million for non-enterprise special districts. Funds received by K-14 schools would not count toward the Proposition 98 guarantee. These monies would augment existing funding, and could be used at the discretion of school and community college districts. The sums received by schools would be distributed to both school districts and community college districts throughout the county, primarily based on numbers of students.

- **Use housing balances for housing.** Amounts in the RDA's balances reserved for low-moderate income housing would be shifted to local housing authorities for low and moderate income housing.
- **Funding for core local services increases as debts are paid off.** After 2011-12, the money available after payment of RDA debt would be distributed to schools, counties, cities, and non-enterprise special districts for general uses. These distributions will generally reflect the distribution of property tax in each county under existing law. This will help counties to absorb costs and provide enhanced services associated with realigned programs, if they choose to use the money in that way. Successor entities would continue the process of retiring RDA debt, which is expected to take at least 20 years. As the RDA debt is retired, the monies formerly used for debt service payments will flow to local governments.

Tax Relief

The funding that the state expends for tax relief has been reduced significantly in the past several budgets. Funding for property tax relief loans and grants for seniors and persons with disabilities has been eliminated. The only remaining tax relief programs with funding in the 2010-11 Budget are the exemption from property tax for the first $7,000 value of principal residences, which is required by the California Constitution, and the Williamson Act property tax reduction for agriculture and open space.

Williamson Act Open Space Subventions

Under the Williamson Act, property owners enter into voluntary contractual agreements with counties to reserve their land for agricultural or open-space purposes, in exchange for which the county assesses their land at a lower value for property tax purposes.

Williamson Act contracts are generally for a 10-year period, although some can also be for 20 years. After the first year, the contracts annually renew for an additional year, unless notice of non-renewal is given by the county or by the property owner. If such notice is given, the assessed value of the property under a 10-year contract increases by specified percentages over a nine-year period. In the tenth year the land is again assessed at full value. The same principle applies to 20-year contracts.

Until 2009-10, the Budget Act annually appropriated approximately $35 million to partially offset the property tax revenues lost by local governments due to these lower assessments. Each participating county received a payment of $2 per acre of non-prime agricultural land, and $5 per acre of prime agricultural land.

Funding for these subvention payments was suspended in the 2009 Budget Act due to fiscal constraints. However, Chapter 722, Statutes of 2010 appropriated $10 million for an alternative form of Williamson Act subvention payments for 2010-11. The bill also made several technical changes to the Williamson Act.

- The Budget eliminates the current-year appropriation for Williamson Act subventions and does not provide ongoing state funding. The program will thus be a local program. Funding provided from the redevelopment agencies tax shift could help counties continue this program on their own.

Local Government Expenditures

State funding for local government and shared programs is mostly included in specific program budgets and is not described in this chapter. For example, state funding for locally delivered mental health programs, social services programs, and health programs is reflected in the budgets for the Departments of Mental Health, Social Services, Public Health, and Health Care Services.

Local Law Enforcement Grants

The General Government portion of the Budget proposes $420 million General Fund for various local law enforcement programs, which will be backfilled on a dollar-for-dollar basis with realignment funding. In addition to these funds, the Budget also provides $57 million General Fund for local grant programs administered through the California Emergency Management Agency and $29 million General Fund for local grant programs administered by the Department of Corrections and Rehabilitation. These funds also will be fully backfilled with realignment funding.

The $420 million in funding in the General Government portion of the Budget will be distributed as follows:

- $107 million for the Citizens' Option for Public Safety Program – These funds are distributed on a population basis to police and sheriffs' departments, with each department receiving a minimum $100,000 grant. Funds may be used for discretionary front-line law enforcement purposes such as peace officer salaries and equipment.
- $107 million for the Juvenile Justice Crime Prevention Act – These funds are distributed to counties on a population basis, and are used for countywide, multi-jurisdictional efforts to both prevent and address the causes of juvenile delinquency.
- $35 million for Jail Booking Fee Subventions – These funds are provided primarily to sheriffs' departments to offset the cost of booking city arrestees into county jails. This eliminates the need for sheriffs to charge police departments for this activity.
- $152 million to support juvenile probation efforts at the county level.
- $19 million for the Small/Rural Sheriffs Program – These funds are provided to 37 sheriffs' departments based on statutory formulas and may be used for discretionary purposes.

LAO

POLICY BRIEF

The 2011-12 Budget: Should California End Redevelopment Agencies?

MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 9, 2011

INTRODUCTION

Californians pay over $45 billion in property taxes annually. County auditors distribute these revenues to local agencies—schools, community colleges, the counties, cities, and special districts—pursuant to state law. Property tax revenues typically represent the largest source of local general purpose revenues for these local agencies.

More than 60 years ago, the Legislature established a process whereby a city or county can declare an area to be blighted and in need of redevelopment. After this declaration, most property tax revenue growth from the "project area" is distributed to the city or county's redevelopment agency, instead of the other local agencies serving the project area.

During the early years of California's redevelopment law, few communities established project areas and project areas typically were small—usually 10 to 100 acres. Over the last 35 years, however, most cities and many counties have created project areas and the size of project areas has grown—several cover more than 20,000 acres each. Partly as a result of this expansion in number and size of project areas, redevelopment's share of total statewide property taxes has grown six fold (from 2 percent to 12 percent of total statewide property taxes). In some counties, local agencies have created so many project areas that more than 25 percent of all property tax revenue collected in the county are allocated to a redevelopment agency, not the schools, community colleges, or other local governments.

California's expansive use of redevelopment has engendered significant controversy. Advocates of the program contend that it is a much needed tool to promote local economic development in blighted urban areas. Program critics counter that redevelopment diverts property tax revenues from core government services and increases state education costs, and that the scale and location of many project areas bear little relationship to the program's intended mission.

The Governor's 2011-12 budget includes a plan for dissolving redevelopment agencies and distributing their funds (above the amounts necessary to pay outstanding debt) to other local agencies. To assist the Legislature in reviewing this proposal, this report explains how redevelopment redistributes and uses property tax revenues. The report then evaluates redevelopment, summarizes and assesses the Governor's proposal, and offers suggestions for legislative consideration.

HOW REDEVELOPMENT REDISTRIBUTES AND USES PROPERTY TAXES

Property Tax Allocation in Areas Not Under Redevelopment

After property owners pay property taxes, county auditors distribute them to schools and other local agencies in the county. While the laws controlling allocation of the base 1 percent property tax rate are complex, they can be summarized in three steps.

- *Step 1.* Every year, each local agency receives the same amount of property tax revenues that it received the year before.
- *Step 2.* Each local agency receives a share of any growth (or loss) in property tax revenues that occurred within its jurisdiction. (The share an agency receives is based on historical factors and is often referred to as its "AB 8 share" after the 1979 law that established the formula to create these shares.)
- *Step 3.* Each city and county receives additional revenues (shifted from the schools' property tax revenues) to offset its losses from the state's reduction of the local sales tax rate (the "triple flip') and vehicle license fee (the "VLF swap"). Each city and county receives funds equal to its current sales tax losses and its 2004 VLF losses, adjusted by the agency's change in assessed valuation since 2004.

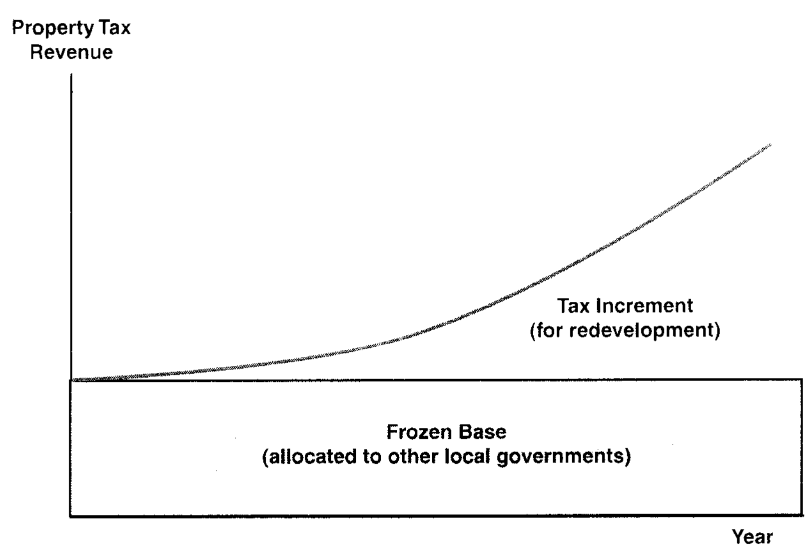
Property Tax Allocation in Areas Under Redevelopment

If a community establishes a redevelopment project area, the amount of property tax revenues flowing to local agencies serving the area is frozen. K-14 districts, the counties, cities, and special districts continue to receive all of the property tax revenues they had received up to that point. This amount is known as the frozen base.

As shown in Figure 1, all of the growth in property taxes in the project area—over the frozen

Figure 1

Allocation of Property Tax Revenues After Redevelopment Project Is Established



base—is allocated to the redevelopment agency as tax-increment revenue. In other words, local agencies receive the same amount of property tax revenues they received in the past, but none of the growth.

This redirection of property tax revenues lasts for the life of the redevelopment project—typically 50 years, although some older projects have longer lifetimes. (A nearby box provides some information about how this element of California's redevelopment law compares with other states with similar programs.)

Viewed from the county auditor's perspective, Steps 1 and 3 of the property tax allocation system (described previously) stay the same. Step 2, however, is revised so that the auditor distributes all revenue growth in the project area to the redevelopment agency—and not to other agencies.

How Redevelopment Uses Property Tax Revenues

State law allows redevelopment agencies to use property tax increment revenues to finance a broad array of projects. Redevelopment agencies typically use these revenues—often in conjunction with private developer funds or other governmental resources—to finance capital improvements, land and real estate acquisitions, affordable housing, and planning and marketing programs.

As shown in Figure 2 (see next page), however, not all of the property tax increment revenue is available for broad redevelopment purposes. State law requires redevelopment agencies to spend 20 percent of tax-increment funds for low- and moderate-income. Additionally, in order to partially offset the loss of growth in property tax revenues for other local agencies, state law requires redevelopment agencies to "pass through" to other agencies a portion of their tax-increment revenues.

Statewide, redevelopment agencies pass through an average of about 22 percent of their property tax increment revenues. This pass-through percentage varies across project areas, based on the date the redevelopment project area was formed and other factors. (Redevelopment law was amended in 1993 to establish a statewide formula for sharing property tax increment revenue derived from *newly* created redevelopment project areas. This formula increases the pass-through share over time. In redevelopment areas established prior to 1993, redevelopment agencies and affected local agencies typically negotiated the amount of revenues contained in a pass-through agreement.)

Comparison With Other States

California's redevelopment law provides for a 50-year diversion of all property tax revenue growth in redevelopment areas. This feature of California law is somewhat unusual in comparison with other states with redevelopment programs (often called "tax increment financing" elsewhere in the country). Many other states, for example, authorize some local agencies to "opt out" of the redevelopment program (that is, to *not* have their property tax revenue growth included in the diversion) or statutorily exclude school property taxes from the program. Still other states limit to shorter periods how long redevelopment agencies may redirect property taxes. California redevelopment law partially mitigates the fiscal effect of its program design by requiring redevelopment agencies to "pass through" a portion of the revenues diverted from other local agencies.

Figure 2

Use of Tax Increment Revenues 2008-09

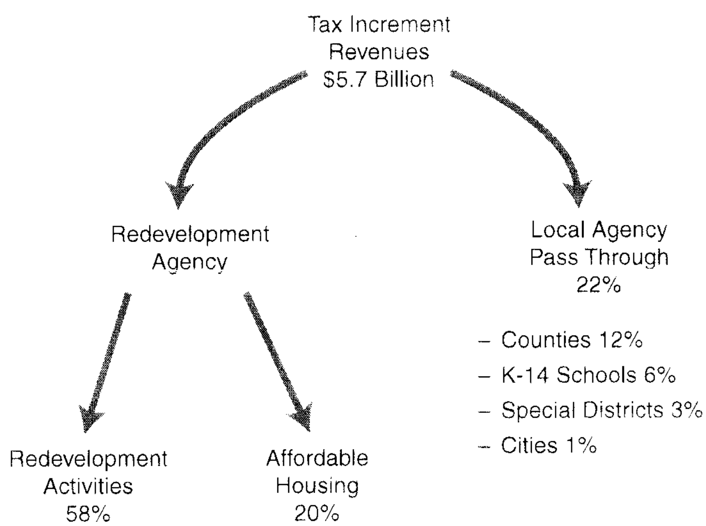
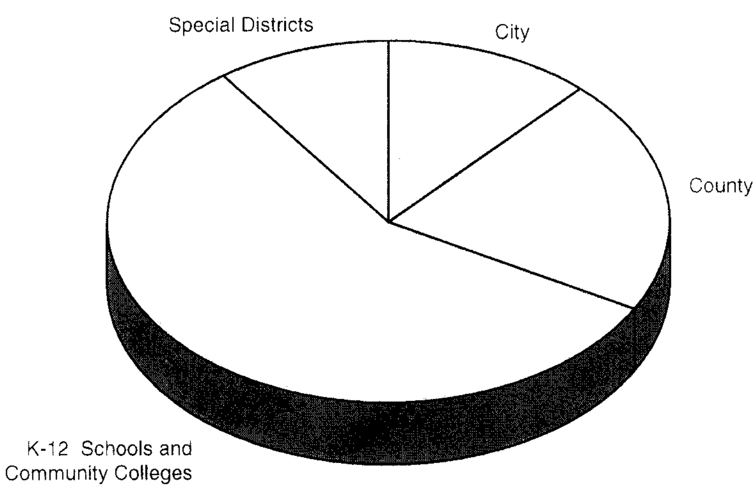


Figure 3

Estimated Statewide Allocation of Property Taxes When Redevelopment Projects End



Property Taxes After Redevelopment Projects End

After a redevelopment project ends, the county auditor distributes all of the revenues that formerly were considered "tax increment revenues" to local agencies in the area. Each agency serving the area receives a portion of the revenues as determined by its AB 8 share. From a county auditor's standpoint, these revenues do not trigger additional allocations pursuant to Step 3 (the triple flip and VLF swap adjustments) because the end of a redevelopment project does not affect a local agency's sales tax revenue losses or calculation of the VLF swap amount. As shown in Figure 3, we estimate that schools and community colleges would receive over half of the revenues made available after a redevelopment project ends. While very few redevelopment projects have ever ended to date, a significant number are expected to end within next 15 years.

EVALUATING REDEVELOPMENT

The Governor's proposal to end redevelopment raises fundamental questions regarding the extent to which this program benefits the state. To help the Legislature evaluate redevelopment programs, we reviewed available academic studies on their effectiveness. In addition, because published academic articles on California redevelopment programs are rare, we reviewed studies on other states' tax-increment financing districts—the common term for redevelopment finance nationwide. Finally, we reviewed state agency and other reports on redevelopment performance producing affordable housing and compared the key elements of accountability for redevelopment and other programs. Figure 4 summarizes our findings, which we discuss in more detail below.

Figure 4

Redevelopment: Findings From Research and Studies

Positive

Flexible tool that can improve targeted areas.
Helps build affordable housing.

Negative

No evidence that redevelopment increases overall regional or statewide economic development.
Diverts revenues from other local governments and increases state education costs.
Has limited transparency and accountability.

Flexible Tool to Improve Targeted Areas

Under the powers granted to them in redevelopment law, cities can target areas within their jurisdiction for economic development. (Although counties also form redevelopment agencies, we focus on cities in this report because they account for more than 90 percent of active redevelopment areas.) While cities have other tools to encourage economic development, establishing a redevelopment area is one of the easiest ways to raise significant sums. Most other local options for generating revenue for economic development—such as issuing general obligation bonds or establishing a business improvement district—require approval by voters and businesses and/or residents to pay increased sums. Redevelopment requires neither.

The use of redevelopment has improved many areas of the state through the revitalization of downtown and historic districts, improvements in public infrastructure, and increased commercial investment. Many of these investments have improved the quality of life for residents in specific areas. In terms of quantifiable measures, most of the academic literature indicates that property values within project areas increase more than comparable areas within a region. This is not surprising as we would expect areas receiving public subsidies to outperform those that do not.

Funds Affordable Housing

As mentioned above, state law requires redevelopment agencies to deposit 20 percent of their tax increment revenues into low- and moderate-income housing funds and spend these funds on affordable housing. Redevelopment agencies are authorized to spend housing funds to acquire property, rehabilitate or construct buildings, provide subsidies for low- and moderate-income households, or preserve public subsidized housing units at risk of conversion to market rates. While other federal, state, and local programs also provide funds for affordable housing efforts, redevelopment represents one of the largest funding sources.

In terms of housing production efficiency and effectiveness, we are not aware of any studies that compare redevelopment agencies' results in producing affordable housing with other financing approaches. We note, however, that state audits and oversight reports frequently conclude that a significant number of redevelopment agencies take actions that have the effect of reducing their housing program productivity, including:

- Maintaining large balances of unspent housing funds. (The Department of Housing and Community Development's most recent report indicates that the agencies collectively had an unencumbered balance of more than $2.5 billion.)
- Using most of their housing funds for planning and administrative costs.
- Spending housing funds to acquire land for housing, but not building the housing for a decade or longer.

No Reliable Evidence That Redevelopment Increases Regional or Statewide Economic Development

While redevelopment leads to economic development *within* project areas, there is no reliable evidence that it attracts businesses to the state or increases overall regional economic development. Instead, the limited academic literature on this topic finds that—viewed from the perspective of an entire city or region—the effect of this program on property values is minimal. That is, redevelopment may cause some geographic shifts in economic development, but does not increase the overall amount of economic activity in a region. Studies in Illinois and Texas, for example, found that their redevelopment programs did little more

CRA Report Inaccurately Calculates Employment Effects of Redevelopment

The California Redevelopment Association (CRA) recently circulated a document asserting that eliminating redevelopment agencies would result in the loss of 304,000 jobs in California. We find the methodology and conclusion of CRA's report to be seriously flawed. In our view, it vastly overstates the economic effects of eliminating redevelopment and ignores the positive economic effects of shifting property taxes to schools and other local agencies.

The CRA's job loss estimate is based on a consultant's report using data from 2006-07. To estimate the number of jobs resulting from redevelopment agencies, the report calculated the total expenditures on construction projects completed within a sample of redevelopment areas for 2006-07, as well as for any projects completed outside the area with agency participation. Based upon that sample, the report then estimated the total construction expenditures for redevelopment agencies statewide in 2006-07 and used a computer model to calculate through various multipliers the total effect of those expenditures on the state's economy and employment. The report concluded that redevelopment was responsible for the creation of about 304,000 full and part-time jobs in 2006-07. Therefore, the CRA asserts that the elimination of redevelopment would result in the loss of 304,000 jobs.

To our knowledge, the consultant's study has never been subjected to any independent or academic scrutiny. Our review indicates that the report has three significant flaws that cause it to vastly overstate the net economic and employment effects of redevelopment agencies.

Assumes Redevelopment Agencies Participate in All Project Area Construction. The study's calculation of construction expenditures includes *all* construction completed in a redevelopment project area in 2006-07, even if the redevelopment agency was not a participant. We find implausible than displace commercial activity that would have occurred elsewhere in the region.

In addition to examining the effect of redevelopment on property values in a region, some research has focused on the effect of this program on jobs. The independent research we reviewed found little evidence that redevelopment increases jobs. That is—similar to the analyses of property values—the research typically finds that any employment gains in the project areas are offset by losses in other parts of the region. We note that one study, commissioned by the California Redevelopment Association, vastly overstates the employment effects of redevelopment areas (please see nearby box).

Diverts Revenues From Other Local Governments and State

Redevelopment agencies receive over $5 billion of tax increment revenues annually. Lacking any reliable evidence that the agencies' activities increase statewide tax revenues, we assume that a substantial portion of these revenues would have been generated anyway elsewhere in the region or state. For example, a redevelopment agency might attract to a project area businesses that previously were located in other California cities, or that were planning to expand elsewhere in the region. In either of these cases, property taxes paid in the project area would increase, but there would be no change in statewide property tax revenues.

the report's implicit assumption that *no* construction with solely private financing would have occurred within a redevelopment area in the absence of the redevelopment agency. This is particularly true, given the large geographic scale of California redevelopment project areas. In our view, it is likely that much of the new business or residential construction (and the associated jobs) would have occurred independently of the redevelopment agency.

Assumes Private and Public Entities Participating in Redevelopment Agency Projects Would Not Invest in Other Projects. Most redevelopment agency projects include significant financing from private investors or other public agencies. By asserting that all of the jobs associated with redevelopment construction would be lost if redevelopment agencies were eliminated, the CRA implicitly assumes that these private and public partners would not invest in other economic activities in the state. The report provided no explanation for this assumption that the existing private capital and public agency grants would remain unused without redevelopment agency participation. In most cases, we would expect developers, investors, and public agencies to find alternative projects to pursue—either within the redevelopment area or elsewhere in the state.

Assumes Other Local Agencies' Use of Property Tax Revenues Would Not Yield Economic Benefits. Under the Governor's proposal, the property tax revenues that currently support redevelopment would flow over time to schools and other local agencies in the county. By asserting that all of the jobs associated with redevelopment construction would be lost if redevelopment agencies were eliminated, the CRA implicitly assumes that these other local agencies' use of property tax revenues would not result in any economic activity. The report provided no explanation for this assumption. In our view, spending by school districts, counties, and other local agencies also would yield significant economic and employment benefits.

To the extent that a redevelopment agency receives property tax revenues without generating an overall increase in taxes paid in the state, the agency reduces revenues that otherwise would be available for local agencies to spend on non-redevelopment programs, including law enforcement, fire protection, road maintenance, libraries, and parks.

The fiscal effect of redevelopment on K-12 schools and community colleges, in contrast, is somewhat different. This is because, under California school finance laws, the state is responsible for ensuring that each district receives sufficient total revenues (from state and local sources) to meet a statutorily defined funding level. Thus, property tax revenues redirected to redevelopment agencies usually are replaced by increased state aid. In this way, K-14 districts are largely unaffected by redevelopment, but state education costs increase.

Fiscal Effect on Local Agencies and the State. Based on the available evidence, we estimate that the amount of property tax revenues diverted from non-school local agencies (principally, counties and special districts) is about $1.5 billion annually net of pass-through payments. We further estimate that the increased cost to the state associated with the diversion of K-14 district property taxes is over $2 billion annually net of pass-through payments. In addition to these amounts, we note that some K-14 districts with unusually high property tax revenues per pupil ("basic aid" districts) also sustain property tax revenue losses associated with redevelopment, but we are not able to estimate the magnitude.

Limited Transparency and Accountability

Redevelopment agencies lack some of the key accountability and transparency elements common to other local agencies. Specifically, unlike other local agencies, redevelopment agencies can incur debt without voter approval. Redevelopment agencies can also redirect property tax revenues from schools and other local agencies without voter approval or the consent of the local agencies.

In addition, although redevelopment programs are authorized in state law and increase state costs, redevelopment programs lack the key accountability elements that are common to state-supported local assistance programs. Specifically, no state agency reviews redevelopment economic development activities or ensures that project areas focus on the program's mission. We also note that use of redevelopment is not limited to communities with low property wealth—some of California's most affluent cities have declared large sections of their jurisdictions "blighted."

GOVERNOR'S PROPOSAL

The administration proposes to dissolve the state's redevelopment agencies. Tax increment revenues that currently go to redevelopment agencies would be redirected to retire redevelopment debts and contractual obligations and to fund other local government services. In place of redevelopment, the administration indicates that it will propose a constitutional amendment to allow local voters to approve tax increases and general obligation bonds for economic development purposes by a 55 percent majority. While many of the details of the Governor's proposal still are under development, we outline its key elements below.

Successor Agency Assumes Debt Obligations

Redevelopment agencies currently have the authority to issue debt, own and lease property, and enter into other long-term contractual obligations. While enactment of the Governor's proposal as urgency legislation would prohibit redevelopment agencies from entering into additional obligations, existing debts would need to be paid. The Governor proposes to transfer the responsibility for managing these obligations to a local successor agency—most likely the city or county that authorized the redevelopment area, guided by an oversight board. The successor agency would receive the redevelopment agency's existing balances and future shares of tax increment revenue to pay the agency's debts. Any funds above the amounts needed to pay these debts would be used for other purposes as described below. The one exception is that the successor agencies would shift any unspent redevelopment housing funds to local housing authorities to use for low- and moderate-income housing.

Use of Redevelopment Funds in 2011-12

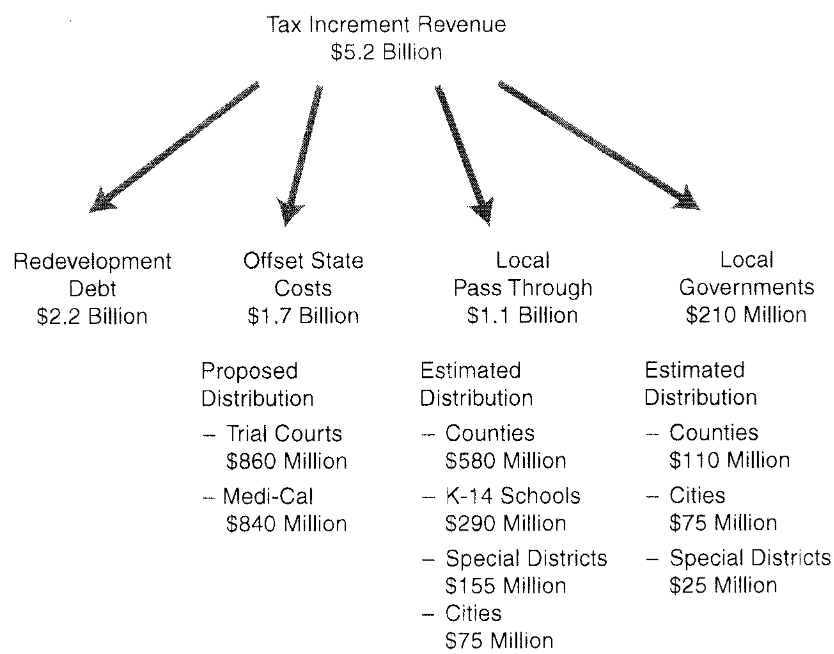
The Governor's budget assumes that tax increment revenues from dissolved redevelopment areas would be approximately $5.2 billion in 2011-12. (The most recent report from the State Controller's Office identifies $5.7 billion of redevelopment tax increment revenues in 2008-09. The Governor's lower tax increment estimate reflects its assumptions regarding the decline of property values statewide.) Of this amount, an estimated $2.2 billion would be used to pay redevelopment debts and obligations during the first year. As outlined in Figure 5, the remainder of the tax increment revenues ($3 billion) would provide funding to local governments and offset state General Fund costs. The Governor's proposal would continue to provide redevelopment's existing pass-through payments to local agencies. It would also offset $1.7 billion in state Medi-Cal and trial court costs and distribute $200 million to cities, counties, and special districts in proportion to these agencies' AB 8 shares of the property tax.

Use of Redevelopment Funds In Subsequent Years

Beginning in 2012-13, any property tax revenues remaining after the successor agencies pay redevelopment debt would be distributed to other local governments in the county. Instead of offsetting state costs or continuing pass-through payments as in 2011-12, distributions of

Figure 5

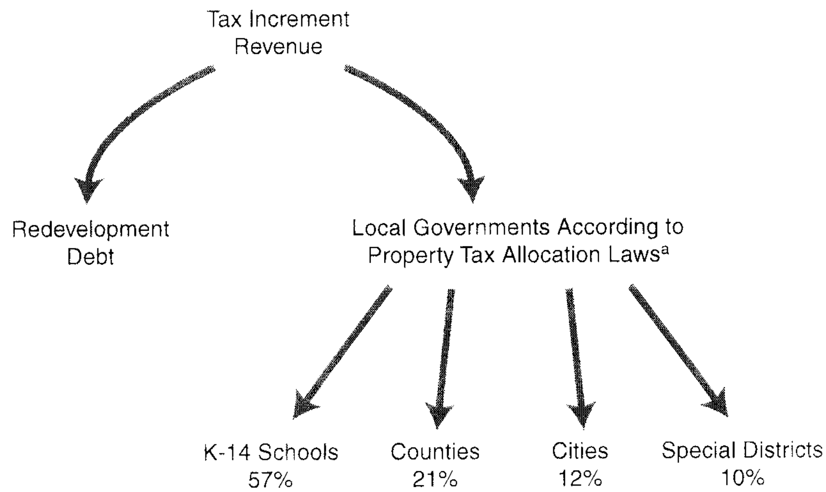
Governor's Proposal for Use of Redevelopment Revenue in 2011-12



these revenues to local governments generally would follow provisions in existing law. One exception is that property taxes that otherwise would be distributed to enterprise special districts (primarily fee-financed water and waste disposal districts) would be allocated instead to counties. As shown in Figure 6, we estimate more than half of the remaining revenue would be distributed to schools. (The exact allocation of property tax revenues, however, varies significantly across the state.) As redevelopment debts are repaid over time, the amount of revenue available to local governments would steadily increase.

Figure 6

Governor's Proposal for Use of Redevelopment Revenue in Future Years



[a]Estimated statewide percentages. Counties would also receive a small portion of funds allocated to special districts. Specifically, property tax revenues that would currently be allocated to enterprise special districts would instead go to counties.

Economic Development Could Continue at Local Level

While the Governor's plan would phase out the existing redevelopment system, it also proposes a constitutional amendment to allow local voters to approve tax increases and general obligation bonds for economic development purposes by a 55 percent majority. At this time, details on this portion of the proposal are not available. As we understand it, cities and counties would retain the powers granted to them under redevelopment law except for the use of property tax increment revenue. In the place of tax increment revenue, the proposal would lower the voter threshold for other financing mechanisms that local governments could use to pursue economic development activities that are currently carried out by redevelopment agencies.

LAO ASSESSMENT

In our view, the Governor's proposal merits consideration. The proposal places the responsibility to pay for local economic development activities with the level of government benefiting from these policies. The proposal also heightens local accountability for its economic development policies and provides local governments increased general purpose revenues. Finally, the proposal would make a significant contribution towards helping the state address its serious fiscal difficulties in 2010-11. We discuss these advantages, as well as some additional consideration related to the proposal, below.

Links Program Control, Benefit, and Costs

Redevelopment agencies determine the types of projects they undertake. Decisions regarding spending tax increment revenues—to remedy local infrastructure problems, provide amenities for an auto mall, or subsidize business relocation—are made at the local level. In addition, the research on tax increment financing indicates that it provides localized economic benefits, but does not necessarily increase statewide economic development.

Given these factors—local control over the use of tax increment funds and local benefits—we see little reason for the state to continue its financial support for this program. The Governor's proposal adheres to a key policy principle that, whenever possible, beneficiaries should pay for services that do not have larger societal benefits.

Improves Government Accountability And Transparency

Local residents and elected officials can best assess the advantages and disadvantages of raising new funds for economic development activities versus shifting funds from other government programs. Under the current system, however, local residents and most elected local officials do not have a role in making these decisions. This is because a redevelopment agency's decision to form a project area can divert property tax revenues from other agencies without their consent or voter approval. The agency forming a project area also does not have to confront the tradeoffs associated with diverting property tax revenues from its local schools because the state backfills virtually all of these property tax losses. Ending state-assisted redevelopment would require individual communities to confront the full policy implications of funding economic development within their borders, thereby improving transparency and accountability.

Redirects Funds to Local Governments

Under the Governor's proposal, schools, counties, special districts, and cities would receive increased property tax revenues. While existing property tax increment revenues are restricted to redevelopment purposes, local governments would have the flexibility to direct these new revenues to their highest priority programs, including public safety, education, health, or social services. Local governments also could elect to use these increased funds for economic development activities.

Provides a One Year State Fiscal Benefit

The proposal would help address the state's 2011-12 budget problem by offsetting state General Fund costs for Medi-Cal and trial courts by $1.7 billion. While there is little policy rationale for using property taxes permanently for these purposes, we think this one-time use is reasonable in recognition of the magnitude of the state's prior-year subsidies for redevelopment.

Additional Factors and Considerations

At the time this brief was prepared, the administration was still developing the statutory provisions to implement its proposal. While we cannot provide the Legislature with a detailed assessment of the proposed plan, we highlight below three issues that merit the Legislature's consideration.

Early Plan Complicated School Funding and Property Tax Allocation Systems. Early versions of the Governor's plan provided a special allocation system for the additional property tax revenues to schools. Instead of being allocated as property taxes to K-14 districts where the revenues were generated, the administration's plan allocated these revenues to K-14 districts *countywide* as a *supplement* to their existing funds. In our view, this approach does not make sense and would further complicate the already complicated K-14 district finance and property tax allocation systems. This approach also would increase state costs over the long term (relative to current law) because the state would not receive the financial relief associated with the expected expiration of redevelopment projects. The state also would forgo considerable ongoing state savings because the increased K-14 property taxes would not offset the state's spending for schools. In our view, any property tax revenue from the former redevelopment areas—above the amounts needed to pay existing debt—should be allocated as property taxes pursuant to existing laws. Should the Legislature wish to provide increased support for K-14 districts or to modify the AB 8 property tax allocation system, it could do so separately.

Few Other Options for Ongoing Redevelopment Relief. In some ways, the Governor's proposal is similar to many previous actions of the Legislature. Specifically, ten times over the last two decades the Legislature has required redevelopment agencies to shift funds to schools, thereby partly mitigating the state's increased education costs associated with redevelopment. In 2009-10, for example, the Legislature required redevelopment agencies to shift $2 billion of redevelopment funds to schools over two years. The voter's recent approval of Proposition 22, however, prohibits the Legislature from enacting these types of revenue shifts in the future. Thus, the Legislature has few options for mitigating the major ongoing costs of redevelopment other than dissolving the program. In the future, the Legislature could consider creating an alternative, more targeted, economic development program.

Dissolving Redevelopment Will Be Complicated and Disruptive. Program changes of this magnitude inevitably pose administrative, policy, and legal difficulties. Ending redevelopment, a program that California local governments have used for decades, will not be an exception. Many communities have significant numbers of people and projects currently funded through redevelopment revenues, as well as plans for additional redevelopment expenditures over the coming months. In addition, a significant portion of redevelopment agency funds are committed to the payment of bonded indebtedness, and three voter approved measures—Proposition 18 (1952), Proposition 1A (2004), and Proposition 22 (2010)—contain provisions limiting the state's authority to shift property taxes and/or redirect tax increment revenues. Drafting a plan for local governments to carefully unwind their redevelopment programs and successfully navigate the many legal, administrative, and financial factors will be complex. The Legislature will need to weigh the costs and benefits of dissolving redevelopment agencies versus the costs and benefits of other major budget alternatives.

CONCLUSION

Given the significant policy shortcomings of California's redevelopment program, we agree with the Governor's proposal to end it and to offer local governments alternative tools to finance economic development. Under this approach, cities and counties would have incentives to consider the full range of costs and benefits of economic development proposals.

In contrast with the administration's proposal, however, we think revenues freed up from the dissolution of redevelopment should be treated as what they are: property taxes. Doing so avoids further complicating the state's K-14 financing system or providing disproportionate benefits to K-14 districts in those counties where redevelopment was used extensively. Treating the revenues as property taxes also phases out the state's ongoing costs for this program and provides an ongoing budget solution for the state.

Ordinarily, we would recommend that the state phase out this program over several years or longer to minimize the disruption an abrupt ending likely would engender. Given the state's extraordinary fiscal difficulties, however, the Legislature will need to weigh the effect of this disruption in comparison with other major and urgent changes that the state would need to make if this budget solution were not adopted.

LAO Publications

This report was prepared by Mark Whitaker and reviewed by Marianne O'Malley. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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Senate Committee on Governance and Finance

California Legislature

Restructuring Redevelopment

A Legislative Oversight Hearing

Testimony by

John F. Shirey
Executive Director
California Redevelopment Association

February 9, 2011
State Capitol, Room 112

The Governor acknowledged in his recent State of the State address that his proposal to abolish redevelopment has drawn a great deal of attention and controversy. Obviously, we oppose his proposal. Eliminating redevelopment would cost jobs and harm local communities and the state as a whole. Elimination would be short-sighted, more complicated than the proposers may understand, and produce less money to balance the state budget than estimated. Moreover, the proposal is very likely unconstitutional.

It is encouraging that this hearing is about "Restructuring Redevelopment," which we feel is a more constructive discussion, and I thank you for this opportunity to testify.

Your staff has provided you with a background paper for this hearing that includes many thoughtful questions you should ask when considering the Governor's drastic proposal. In my comments, I will address a few of those questions by answering the critics of redevelopment and then suggest more points for you to consider

First, the critics.

They have trotted out academic studies—mostly done in other states—that say tax increment financing only rearranges development from one place to another. And then the thirteen-year-old Dardia study, using data from an unrepresentative sample of projects adopted between 1978 and 1982--well before the redevelopment reforms of 1993 were enacted--is often cited. Perhaps most disturbing to me, though, are those who have said that economic development is not a responsibility of state government which no doubt drew cheers in other capitols in states such as Nevada and Texas where poaching businesses from California is a sport.

My organization has contracted for studies to measure and quantify the economic outcomes from redevelopment activities. Those studies employ a widely-accepted economic model called IMPLAN which is also used by State government and many others. These studies conclude that in good years when redevelopment funds are not taken away, redevelopment activities statewide:

- Support over 300,000 jobs mostly in construction and construction-related industries where unemployment is currently running over 35%
- Generate over $40 billion of economic activity because redevelopment investments leverage many more public and private dollars which churn at least one more time through the overall economy, and
- Generate $2 billion in taxes to support state and local government services.

Those are big numbers even in a state with as big an economy as California's. And even if Dardia is right that redevelopment is responsible for only half the economic development it claims, do we want to give up $20 billion of economic activity annually?

Yesterday, the Legislative Analyst's Office released a report critical of the findings above. Unfortunately, the LAO's critique is based on fundamental misunderstandings of the report's methodology. The researchers who conducted our studies have responded to those criticisms in a separate report. I won't get into the details here, but as an example of the fundamental flaws in the LAO's report: it incorrectly states that our report calculated all construction activity in a project area, which is simply not true. The researchers calculated only construction activity that received assistance from the redevelopment agency. There are other flaws that are spelled out in more detail in their response.

Does redevelopment rearrange where development occurs? Yes! Redevelopment directs development to already built areas and away from urban fringe and Greenfields areas where development is always cheaper and easier. It cleans up Brownfields in places such as Emeryville and Santa Fe Springs where toxic dumps made land unusable and unaffordable. It builds infill housing that puts people closer to jobs, thus cutting down on vehicle miles traveled (VMT). More and more redevelopment projects are mixed-use development sometimes located in proximity to public transit. Redevelopment is a land use policy as well as a financing mechanism.

The best studies are done using your eyes and ears. Local elected officials can tell you endless stories in their communities where downtowns and neighborhoods are better today because of redevelopment and private investment would not have occurred on its own without redevelopment intervention. Just look in areas like South Los Angeles, Sacramento's Phoenix Park, and San Francisco's Shipyard area—areas that but for redevelopment would otherwise be abandoned by the private sector.

In last Friday's Senate Budget Subcommittee hearing, an owner of a camper manufacturing business in Lancaster, Jack Cole, told how he was ready to move to Indiana until the City stepped in to help with redevelopment assistance. He is still here in California and his business employees 500 persons.

In Hawthorne officials can tell you that the Los Angeles Air Force Base, headquarters for Space and Missile Systems, could have moved to Colorado or New Mexico, but a public-private partnership and $25 million of redevelopment funds were used to replace its seismically-unsafe buildings and keep the base in California. That base employees 10,000 people directly and supports another 55,000 jobs in the greater Los Angeles area.

Whether we like it not, California has a reputation for not being a good place to do business. True or not, we know perception is reality. Do we really want to add to that reputation by eliminating redevelopment, practically the only program we have for economic development?

The Governor said we have to focus on core government services when resources are limited. It should not be forgotten where the funds come from to pay for core services—taxes paid by workers who have jobs and businesses that provide those jobs. When people are working and paying income and sales taxes, they can support their families and themselves and have less need for state assistance.

As the Mayor of Columbus, Ohio, Michael B. Coleman, said in a speech I heard him give last September: "The best social service program is a job." In the current fiscal climate, we can ill afford to give up a jobs producer such as redevelopment.

It would make sense to do an objective analysis of the fiscal and economic consequences of eliminating redevelopment before taking such a life-ending action as the Governor has proposed.

- Redevelopment is the largest source of funds for affordable housing next to the federal government. That is critical in our state which has the highest cost of housing in the country and is the second highest cost state for renters. In California, nearly one-third, or 1.7 million, of the low and moderate income working households spend more than half of their income for housing.
- In a state with crumbling infrastructure where the backlog of needed infrastructure is measured in the tens of billions of dollars, how would that portion now being provided through redevelopment funds will be replaced—streets, water lines, sewers, and public facilities such as fire stations?
- If redevelopment is abolished, how will literally thousands of parcels of contaminated land be cleaned up?
- How would the thousands of jobs and the $2 billion in taxes stemming from redevelopment investments and activities be replaced?

Some have tried to frame the debate on whether to keep redevelopment by contrasting it with other important services: Which is more important--redevelopment or children's educations? That is a false choice. Strong neighborhoods have strong schools, and visa versa. When fathers and mothers have jobs, their children are living in a better learning environment. When schools are in healthy communities with less crime, better housing stock, and good businesses, those schools are better too. We need both.

One of the criticisms state officials have leveled at redevelopment is that it costs the State money. The so-called "cost" to the State comes from the requirement in Prop 98 to backfill <u>part</u> of the property tax dollars used by redevelopment agencies that would otherwise go to schools. And, so the argument goes, redevelopment needs to be eliminated so that it won't cost the state more money for schools. However, beyond the budget year the Governor's proposal does nothing to balance the State budget by abolishing redevelopment.

We want to find ways to be helpful in this process to balance the state budget, and here we point out just this past May redevelopment agencies turned over $1.7 billion to help balance the state budget, and they are scheduled to turn over another $350 million this coming May for trial courts. In 2004 and 2005 we were asked to help bail out the state, and we responded with a $2.6 billion package of cash from cities, counties, special districts, and redevelopment agencies. Those discussions at the time were difficult, but there was a spirit of cooperation and trust between state and local government officials then that has not existed since.

A convincing case for eliminating redevelopment has <u>not</u> been made. If there are complaints about how it works, let's address those complaints. My organization has been in the forefront of suggesting reforms to redevelopment, most notably our sponsorship of AB 1290 in 1993 when sweeping reforms were made such as adding stricter definitions of blight in the law, setting time limits on how long project areas could last and how much tax increment could be collected, and requiring mandatory pass-throughs to other taxing entities.

A more productive discussion at this point would center on how to make redevelopment meet State government needs as well as the needs of local governments. Some examples:

- The State has enacted AB 32 and SB 375, landmark laws to address climate change and greenhouse gas emissions. Local officials have complained that there are no resources to implement those laws. Might there be a role for redevelopment funds to be used for that purpose?
- On a related subject the State has released a new building code, CalGreen, to require more sustainability features in new development. Should we also make sure most redevelopment projects have sustainability features?
- Last year my organization sponsored legislation (AB 2531, Fuentes) to allow redevelopment agencies to provide assistance to manufacturing and industrial businesses to become more energy efficient. That jobs bill was approved by the Legislature but vetoed by the then governor for stated reasons that had nothing to do with the content of the bill. Should we reintroduce that legislation?
- There have been complaints and reports that some agencies don't spend their housing money and/or their expenditures don't increase the supply of affordable housing. Wouldn't it be better to focus on how to spend that money more effectively rather than eliminate it altogether?
- Some feel that redevelopment has grown too big and consumes too much tax increment. Wouldn't it be better to place limits on it rather than wipe it out?

And wouldn't it make more sense to have a discussion about what we all can do to grow the California economy so that we maintain our place as a leader in the nation's economy and the world economy?

The President's recent State of the Union speech was inspirational and visionary. I hope we heard his words about the need to reposition the economy and "win the future." Economists have told us that many of the jobs lost during the recession will never come back. Unless we make changes, we will have to accept higher levels of unemployment as a permanent state of affairs. That should be unacceptable to us.

Redevelopment with its resources to support jobs could be part of the discussion on how we create jobs of the future. It could be part of the innovation economy and contribute to growing jobs and thus building a stronger tax base to support important public services. That would be a win for everyone.

Counties and the Governor's Redevelopment Proposal
Senate Governance and Finance Committee * February 9, 2011
Jean Kinney Hurst, California State Association of Counties (CSAC)

CSAC has no formal position on the Governor's redevelopment proposal; however, counties do have a strong vested interest in the allocation and use of the local property tax. It is from that perspective that I offer my comments today to provide context to the current debate.

Many counties feel very strongly about the successful achievements of their redevelopment agencies, as you will undoubtedly hear in the public comments. On the other hand, we have many counties who feel equally strongly that redevelopment on the opposite direction. So, just to be clear – our 58 counties have varied attitudes about redevelopment in general.

Latest data (2008-09) shows 31 county redevelopment agencies with 5 inactive agencies. There are 5 jointly-formed city/county redevelopment agencies, many which serve the purpose of redeveloping now-closed military bases.

To be fair, counties love their own redevelopment agencies and often gripe about city redevelopment agencies. The Legislature is familiar with those gripes.

But it's not as schizophrenic as it seems once you consider the essential difference between the two: control and choice.

When a county forms a redevelopment agency, it does so considering the myriad needs of its communities and ability to fund public services. It can make informed choices about redevelopment activities because it does so in the broader context of its budget constraints and community needs.

When a city forms a redevelopment agency, the county has little or no say. And, if a county disagrees with the redevelopment agency on decisions on boundaries or specific projects, its remedies are limited, primarily to the court. And since statutes are such that redevelopment agencies have great autonomy, the county often finds itself on the losing end.

There are considerable disputes between counties and city-run redevelopment agencies. We tend to argue over:

Pass-through calculations
Extensions of statutory deadlines on collection of increment and debt incurrence
Mergers of project areas
Blight standards

Counties argue over these issues because we want the greatest predictability and stability of our primary revenue source – the property tax. The Governor's proposal anticipates that $1.1B in local property tax would return once redevelopment agencies are eliminated. That's a lot of revenue to a county that would otherwise wait decades for that revenue, particularly in light of the potential of significantly increased responsibilities for public services as contemplated in the Governor's budget.

Eliminating redevelopment agencies is a big deal – a significant policy discussion. The public debate that is occurring is a healthy one – I think it is fair to say that very few Californians understand how tax increment financing works or appreciate the disparities in property tax revenue received by local agencies up and down the state.

As counties communicated to you last week, from a policy perspective, it is worth having a broad conversation about which level of government should be responsible for what services and how those services should be funded.

We are very interested in discussions that focus on additional tools for economic development or reforms to the redevelopment construct. We have a great deal of interest in ensuring that our communities are able to find the resources to provide for infrastructure and public facilities; at the same time, we must also focus on ensuring sufficient resources for the other critical public services counties provide and in a balanced and stable state budget.

As you consider these admittedly controversial issues, we would just ask that you consider a greater role for all local taxing entities when determining appropriate use of tax increment dollars.

Cooperation is the key here, as we as a state discuss a fundamental shift in how public services are provided, who provides them, and how they are funded.

CALIFORNIA BUDGET PROJECT

Updated January 27, 2011

What Does the Research Say About Redevelopment?

For nearly seven decades, California law has authorized cities and counties to establish redevelopment agencies (RDAs) in order to reduce blight. Once established, RDAs receive most of the growth in property tax revenues attributable to increases in property values ("tax increment") in the redevelopment project areas.[1] Absent redevelopment, schools and other local agencies would receive these revenues. Currently, RDAs receive approximately 12 percent of statewide property tax revenues, up from 4 percent in 1983-84.[2] As part of his 2011-12 Proposed Budget, Governor Jerry Brown proposed to dissolve RDAs by July 1, 2011.

Independent research on redevelopment in California – more broadly referred to as "tax-increment financing" (TIF) in other states – is limited. Studies find mixed results as to whether TIF boosts property values and results in increased property tax revenues. However, the most comprehensive independent study of California RDAs, conducted by the Public Policy Institute of California, found that redevelopment activities in most RDAs studied failed to generate enough growth in property values to account for the tax increment revenues they received. A small body of academic literature also examines the extent to which TIF projects boost economic activity, and some of this research finds evidence that TIF projects simply shift economic activity ***within*** municipalities rather than creating ***additional*** economic activity. For example, one study suggests that when employment increases in TIF project areas, it decreases in other parts of the city, which could mean that TIF projects draw jobs from elsewhere in the city, rather than generating net new jobs.

The California Budget Project reviewed independent research findings on the effectiveness of RDAs and of TIF more broadly. Key findings are briefly summarized below.

Michael Dardia, *Subsidizing Redevelopment in California* (Public Policy Institute of California: January 1998).[3]

This study showed that the vast majority of California redevelopment projects studied failed to generate enough growth in property values to account for the tax increment revenues they received. Specifically,

[1] A portion of the tax increment revenues must be shared with other local agencies, including counties and school districts, and at least 20 percent must be used to preserve, improve, or expand the supply of affordable housing. The state typically backfills school districts' loss of property tax revenues through the calculation of the Proposition 98 guarantee.

[2] This varies widely across the state. According to the Legislative Analyst's Office, "some agencies have placed so much property under redevelopment that as much as one-fifth of their countywide assessed property values is under redevelopment. The City of Fontana's redevelopment agency receives more than two-thirds of property taxes paid in the city." Legislative Analyst's Office, *Governor's Redevelopment Proposal* (January 18, 2011).

[3] http://www.ppic.org/content/pubs/report/R_298MDR.pdf

1107 9th Street, Suite 310
Sacramento, California 95814
P: (916) 444-0500
F: (916) 444-0172
cbp@cbp.org
www.cbp.org

this study tracked a sample of 38 California redevelopment projects over 13 years and found that they collectively generated just half of the tax increment revenues they received in 1994-95. The author concluded that the subsidy from other jurisdictions to those RDAs totaled $38 million that year and estimated that the total subsidy for a larger sample of 114 RDA projects could have been about $170 million annually. In addition, he concluded that "the existing tax increment system is not an effective way to finance redevelopment. Few projects generate enough increase in assessed value to account for their share of these revenues."

Richard F. Dye and David F. Merriman, "The Effects of Tax Increment Financing on Economic Development," *Journal of Urban Economics* 47:2 (March 2000) and Richard F. Dye and David F. Merriman, "The Effect of Tax Increment Financing on Land Use," in Dick Netzer, ed., *The Property Tax, Land Use, and Land-Use Regulation* (Cheltenham, United Kingdom, Edward Elgar Publishing: 2003).[4]

These studies found that municipalities that adopt TIF simply redirect economic development activity to TIF project areas at the expense of the rest of the city. Specifically, the researchers examined several hundred municipalities in Illinois and found "no positive impact of TIF adoption on the growth in citywide property values. Any growth in the TIF district is offset by declines elsewhere." The authors concluded that "policymakers should use TIF with caution. It is, after all, merely a way of financing economic development and does not change the opportunities for development."

Paul F. Byrne, "Does Tax Increment Financing Deliver on Its Promise of Jobs? The Impact of Tax Increment Financing on Municipal Employment Growth," *Economic Development Quarterly* 24:13 (2010).[5]

This study found that "contrary to the claims of municipal leaders touting TIF as a job creator, there is no evidence that TIF adoption in general has a positive impact on municipal employment." Based on an analysis of municipalities in Illinois that adopted TIF, this study suggests that any increase in employment within TIF project areas is simply the result of shifting jobs from elsewhere in the city.

John E. Anderson and Robert W. Wassmer, *Are Local Economic Development Incentives Effective in an Urban Area?* California State University, Public Policy and Administration Working Paper No. 99-03 (November 18, 1999) and John E. Anderson and Robert W. Wassmer, *Bidding for Business: The Efficacy of Local Economic Development Incentives in a Metropolitan Area* (Kalamazoo, Michigan, W. E. Upjohn Institute for Employment Research: 2000).[6]

These studies found that the share of residents of TIF areas who were employed declined after TIF projects began because population growth in these areas exceeded job growth. Based on an analysis of TIF projects in the Detroit metropolitan area, this study concluded that "it is hard to argue in favor of the benefits of new jobs for existing residents when we have found that an incentive can bring a greater number of new residents than new jobs, and thus decrease residential employment rates." However, the study also found that increased job opportunities in TIF areas tended to benefit low-income residents, which reduced the poverty rate in these areas.

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[4] http://americandreamcoalition.org/landuse/TIFsinIllinois.pdf, http://ideas.repec.org/a/eee/juecon/v47y2000i2p306-328.html, and http://www.e-elgar.com/bookentry_main.lasso?id=3041

[5] http://edq.sagepub.com/content/24/1/13

[6] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=195148 and http://www.upjohninstitute.org/publications/titles/bb.html

Joyce Y. Man and Mark S. Rosentraub, "Tax Increment Financing: Municipal Adoption and Effects on Property Value Growth," *Public Finance Review* 26:523 (1998).[7]

This study found that median home values in Indiana cities that adopted TIF projects increased by 11.4 percent relative to what they would have been without TIF projects. However, unlike California and many other states, Indiana did not require a finding of blight in TIF project areas at the time of the study. This study's results could reflect that municipalities with fast-growing property tax bases choose to adopt TIF in order to capture tax increment revenue, not that TIF projects themselves are responsible for the growth.[8]

Paul F. Byne, "Determinants of Property Value Growth for Tax Increment Financing Districts," *Economic Development Quarterly* 20:4 (November 2006).[9]

This study finds that property values tend to increase more when TIF projects are located in less dense areas, places with higher vacancy rates and older buildings, and industrial areas close to municipal centers, among other things. In addition, the study's findings lend "some credence to the criticism that TIF success is partly attributable to the natural pattern of growth within municipalities," meaning that increased property values in TIF project areas reflect, at least in part, general economic trends that would have occurred even without redevelopment. This study bases its conclusions on an analysis of TIF districts in the Chicago metropolitan area.

Joyce Y. Man, "Effects of Tax Increment Financing on Economic Development," in Craig L. Johnson and Joyce Y. Man (eds.), *Tax Increment Financing and Economic Development: Uses, Structures, and Impact* (Albany, New York, State University of New York Press: 2001).[10]

This article reviews the research on TIF, including national surveys, case studies, and econometric analyses of TIF programs, and concludes that "empirical studies have yielded conflicting conclusions about the effectiveness of TIF programs."

Jeffrey I. Chapman, "Tax Increment Financing as a Tool of Redevelopment," in Helen F. Ladd, ed., *Local Government Tax and Land Use Policies in the United States* (Cheltenham, United Kingdom, Edward Elgar Publishing: 1998).[11]

This article concludes that "when studied *ex post* on a case-by-case basis, some [TIF] projects seem to stimulate significant redevelopment while others do not. However, the limited empirical work results in few conclusions that can be generalized." In addition to reviewing the research on TIF, the author outlines several policy issues related to TIF, including whether TIF projects are "self-financing" and whether municipalities use TIF "as a tool of redevelopment finance or a tool to relieve fiscal stress."

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7 http://pfr.sagepub.com/content/26/6/523.short

8 Rachel Weber, Saurav Dev Bhatta, and David Merriman, "Does Tax Increment Financing Raise Urban Industrial Property Values?" *Urban Studies* 40:10 (September 2003), downloaded from http://usj.sagepub.com/content/40/10/2001 on January 20, 2011.

9 http://edq.sagepub.com/content/20/4/317.abstract

10 http://www.sunypress.edu/p-3374-tax-increment-financing-and-eco.aspx

11 http://www.e-elgar.co.uk/bookentry_main.lasso?id=1332

Jeff Chapman, "Tax Increment Financing and Fiscal Stress: The California Genesis," in Craig L. Johnson and Joyce Y. Man (eds.), *Tax Increment Financing and Economic Development: Uses, Structures, and Impact* (Albany, New York, State University of New York Press: 2001).[12]

This article examines the history of redevelopment in California and suggests that "fiscal stress might influence the degree of TIF redevelopment that occurs" in the state. The author concludes that "TIF can be a useful tool. ...But it only works correctly if it is carefully planned, monitored, and implemented under the light of public scrutiny."

The Bottom Line

The findings of this body of research are echoed in the Legislative Analyst's Office's (LAO) recent review of the economic literature. The LAO concludes that "there is no reliable evidence that redevelopment projects attract businesses to the state or increase overall economic development in California. The presence of a redevelopment area might shift development from one location to another, but does not significantly increase economic activity statewide."[13]

How Do Redevelopment Agencies Spend Funds Set Aside for Affordable Housing?

RDAs must deposit at least 20 percent of annual property tax increment revenues into a special fund called the Low and Moderate Income Housing Fund (LMIHF) to be used to preserve, improve, or expand the supply of affordable housing.[14] State law lists nearly a dozen activities that LMIHF dollars can be spent on, including property acquisition, construction, and rehabilitation.[15] Each year, RDAs report their total LMIHF expenditures broken out by eligible activity to the California Department of Housing and Community Development (HCD).[16]

The most recent HCD data available show that the largest share of LMIHF dollars spent by RDAs collectively in 2007-08 (31 percent) was used to pay debt service, including debt service for tax allocation bonds and notes, revenue bonds and certificates, and city or county advances and loans.[17] Approximately two out of 10 LMIHF dollars spent that year (21 percent) were used to acquire property, which includes real estate purchases, acquisition expenses, and the operation of acquired property, as well as relocation costs and payments.[18] Another 11 percent of RDAs' total LMIHF expenditures were used for housing construction in 2007-08, and 8 percent were used for housing rehabilitation and on- or off-site improvements. In addition, 13 percent of expenditures were used for planning and administration, and 13 percent were used to provide rental subsidies, assist first-time homebuyers with down payments, and purchase

[12] http://www.sunypress.edu/p-3374-tax-increment-financing-and-eco.aspx

[13] Legislative Analyst's Office, *Governor's Redevelopment Proposal* (January 18, 2011).

[14] RDAs may claim an exemption from this requirement if the community's general plan demonstrates that there is no need for affordable housing in the community or that less than 20 percent of the tax increment is sufficient to meet affordable housing needs. The California Department of Housing and Community Development's (HCD) annual redevelopment housing activities reports show that only a small number of redevelopment projects claim exemptions. See HCD's redevelopment housing activities reports, downloaded from http://hcd.ca.gov/rda/ on January 21, 2011.

[15] See California Health and Safety Code Section 33334.2 (e).

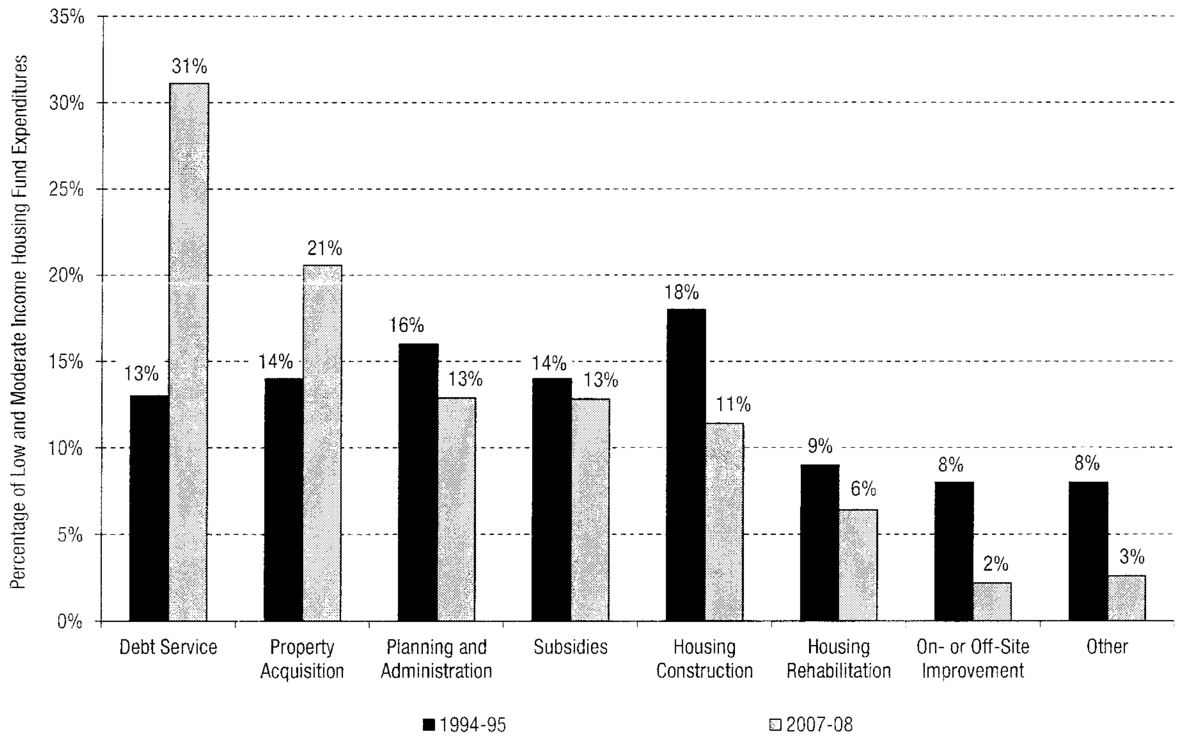
[16] See http://hcd.ca.gov/rda/ for annual reports from 2000-01 to 2007-08.

[17] In addition, debt service includes US state and other long-term debt, interest expense, debt issuance costs, other debt service costs, and other expenditures. See http://housing.hcd.ca.gov/hpd/rda/07_08/ex_c-5_07-08.pdf.

[18] In addition, property acquisition includes site clearance costs and disposal costs. See http://housing.hcd.ca.gov/hpd/rda/07_08/ex_c-3_07-08.pdf.

affordability covenants.[19] Since 1994-95, the share of LMIHF dollars spent on construction, rehabilitation, and on- or off-site improvements has declined, while the share used to pay debt service and acquire property has increased.[20]

How Do Redevelopment Agencies Spend Funds Set Aside for Affordable Housing?



Source: California Department of Housing and Community Development and Senate Committee on Housing and Land Use

Useful Sources of Information on How RDAs Spend Funds Set Aside for Affordable Housing

California Department of Housing and Community Development, Housing Activities of California Redevelopment Agencies Annual Reports.[21]

These reports compile information reported by RDAs on their use of funds set aside in the LMIHF.

California State Controller's Office, Redevelopment Agencies' Annual Reports.[22]

These reports compile information on the financial transactions of RDAs.

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[19] Planning and administration includes administration costs, indirect nonprofit costs, planning, survey/design, and professional services. See http://housing.hcd.ca.gov/hpd/rda/07_08/ex_c-7_07-08.pdf.

[20] In 1994-95, 18 percent of LMIHF expenditures were used for construction, 17 percent were used for rehabilitation and on- or off-site improvements, 13 percent were used to pay debt service, and 14 percent were used to acquire property. See *Ends or Means? Redevelopment Agencies' Housing Programs: The Summary Report From the Interim Hearing of the Senate Committee on Housing and Land Use* (California Senate Office of Oversight and Outcomes: November 13, 1996).

[21] http://hcd.ca.gov/rda/

[22] http://www.sco.ca.gov/ard_locrep_redevelop.html

Ends or Means? Redevelopment Agencies' Housing Programs: The Summary Report From the Interim Hearing of the Senate Committee on Housing and Land Use **(Senate Committee on Housing and Land Use: November 13, 1996).**

This report summarizes information presented at a Senate Committee on Housing and Land Use hearing that examined how RDAs spend their money and to what extent they have increased the supply of affordable housing. Some of the issues raised during the hearing include the fact that some RDAs consistently report spending the majority of their LMIHF dollars on planning and administration, which may constitute waste, and that no state department is charged with ensuring RDAs are in compliance with redevelopment law.

Nancy Vogel, et al., *Where Does the Affordable Housing Money Go? Administrative Spending by Redevelopment Agencies Lacks Accountability* (California Senate Office of Oversight and Outcomes: September 30, 2010).[23]

This study concludes that "current laws and oversight give the Legislature and public no assurance that redevelopment agencies are using at least 20 percent of revenues to efficiently create affordable housing." Based on a small sample of California RDAs, some chosen randomly and others chosen because they consistently spent a large share of LMIHF dollars on planning and administration, this study finds some evidence that certain RDAs have misused funds set aside for affordable housing.

Mao Yang, *The Low-Mod Fund: RDAs Spending 100% of Total Expenditures on Planning and Administration*, Thesis, Master of Public Policy and Administration, California State University, Sacramento (Spring 2007).[24]

This study finds that each year between 2000-01 and 2004-05, less than one out of 10 RDAs spent ***all*** of their LMIHF dollars on planning and administration. In addition, the study identifies five RDAs – Atascadero, Kingsburg, Modesto, San Bruno, and Tulare County – that spent all of the LMIHF dollars on planning and administration during those five years in a row.

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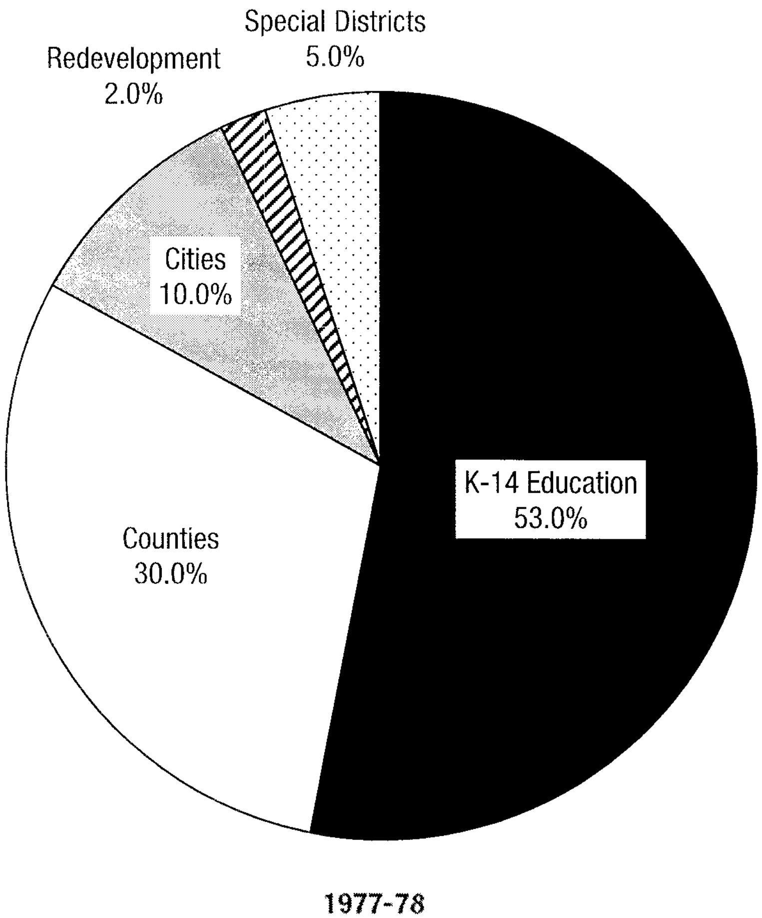
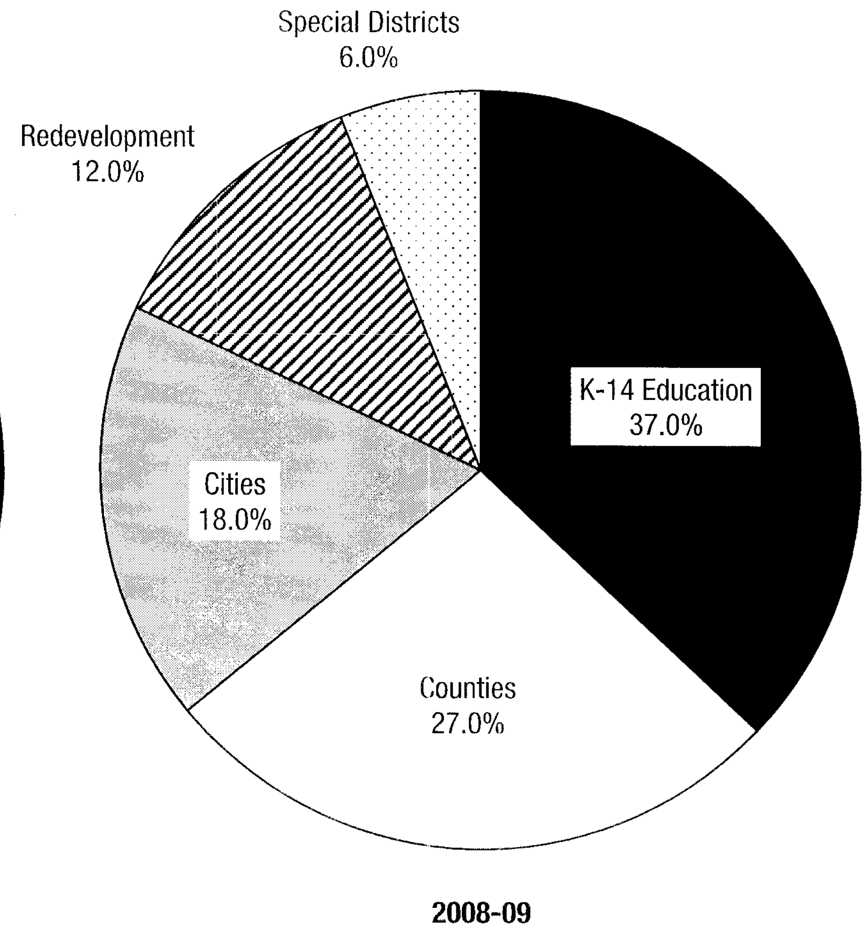
[23] http://www3.senate.ca.gov/deployedfiles/vcm2007/senoversight/docs/affordable%20housing%20report.pdf

[24] http://eureka.lib.csus.edu.proxy.lib.csus.edu/search/t?SEARCH=low%20mod%20fund&searchscope=

Redevelopment Agencies Received 12 Percent of Statewide Property Taxes in 2008-09, Compared to 2 Percent in 1977-78





CALIFORNIA BUDGET PROJECT

Note: Redevelopment agencies' share includes taxes ultimately passed through to local agencies.
Source: Legislative Analyst's Office

Restructuring Redevelopment: Reviewing the Governor's Budget Proposal
Senate Local Governance and Finance Committee

-

9:30am – 12:00pm
Wednesday, February 9, 2011
State Capitol, Room 4203

CSDA TALKING POINTS

- Madame Chair and Senators, thank you for inviting me to participate in this important discussion. My name is *Jo Mackenzie* and I am President of the *California Special Districts Association*, as well as President of the Vista Irrigation District in San Diego County to which I was elected to in 1992.

- I must preface my comments by stating that CSDA has not adopted a formal position on the Governor's redevelopment proposal. However, we look forward to working together with you and the Governor as we seek to address the challenges facing our state and our communities.

- As you may know, CSDA represents all types of special districts across California. Our nearly 1,000 members provide services such as flood protection, water, sanitation, parks and recreation, healthcare, library, and fire protection to families throughout the state.

- To put that in perspective, over 11 million people receive fire protection from special districts. Millions more are served by water districts, sanitation districts, and other districts providing core public services in an exceptionally *focused* and *locally-driven* manner.

- Each and every special district was created by its constituents because they wanted quality focused core services provided to their families.

- These communities depend upon special districts for some of their most essential services, which are fundamental to a thriving and sustainable community.

BUDGET

- CSDA appreciates the seriousness of the state's budget situation and the context in which Governor Brown's proposals have been put forward.

- Of course, today we are focused on one of the central components of the budget: realigning services and funding from the state to the local level.

- As Governor Brown's budget summary states, his budget seeks to return power to special districts, cities, counties, and school districts in order to allow decisions to be made by those who have the direct knowledge and interest to ensure that local needs are met in the most sensible way.

- California's Special districts *specialize* in that "direct knowledge and interest" in meeting the local needs. Our elected boards are representative of the community and focus solely on delivering the vital core services for which they were created. Special districts are the closest form of government to the people.

- In his State of the State address, Governor Brown declared that *"core functions of government must come first"* reiterating his budget proposal to provide revenues for core local services.

- CSDA applauds the Governor's commitment to core local services and looks forward to working with this Committee, the Legislature, and the Governor in finding the best way to meet that commitment.

PROPERTY TAXES

- CSDA has long defended the use of property taxes for the core local services that special districts and other local agencies provide.

- Because the broad benefits from special district services and projects accrue directly to property owners, an *ad valorem* property tax is a fair and equitable mechanism for those who benefit directly benefit to share the cost of such services and projects.

- This Property Tax revenue provides the firm financial foundation for special districts and other service providers to build the infrastructure necessary to maintain a thriving economy and healthy environment.

Referencing RDA'S AND SPECIAL DISTRICTS

- Our relationship with redevelopment agencies is much different than RDAs' relationship with the cities and counties that establish them.

- When a redevelopment agency is created, it diverts new property tax dollars away from traditional city and county activities, as well as special district and school district services, to fund redevelopment projects.

- A city that creates the RDA, makes an economic decision based on the cost to the *city*. But it is not obligated to take into account the cost to other local agencies.

- When a city establishes an RDA, special districts, school districts, and counties help *fund* the RDA, but have no say in its *creation*, influence over its *operation*, or choice over *participation*—all of which some states do require.

- It is also important to note that redevelopment projects sometimes focus on developments that increase sales tax revenue to the city or county, and special districts do not receive any sales tax revenue.

- Special districts *can* benefit from economic development and some districts have benefited under certain circumstances where the RDA partnered with the district in a fair and equitable manner.

- However, this is not always the case because, in California, special districts are not afforded the necessary standing to effectively negotiate with RDAs.

- Primarily, a district does not have the ability to opt out. Therefore, districts cannot weigh the potential future benefit an RDA may bring against the immediate costs to the district's core services.

- As the committee background paper indicates, it is estimated that in 2008-09 redevelopment agencies received $519 million of property tax revenue that otherwise would have funded fire protection, parks, water, sanitation and other special district services.

THE PROPOSAL AT HAND

- CSDA has reviewed the redevelopment plan outlined in the January 10 proposal and looks forward to analyzing the specifics of how this proposal would be implemented.

- CSDA represents a diverse membership, and the impact on each unique special district—and the vital core services and infrastructure they provide—could vary greatly depending on the yet-to-be-released details of the Governor's proposal.

- As we learn more details of the proposal, and as the Legislature further considers them, CSDA will be at the table and prepared to work collaboratively.

CONCLUSION

- Special districts understand how tough the choices are that our state now faces—and how difficult this Legislature's job will be.

- Likewise, we appreciate the contributions and roles that each type of local government plays in California. Counties, cities, and schools are our partners, and we enjoy a strong working relationship with them.

- **Regardless of the policy decision the Governor and the Legislature choose to make concerning economic development, our focus is ensuring that core services to residents will continue uninterrupted.**

- **Our *top* concern** is for the Californians who depend on safe and reliable water, fire protection, parks, and other vital services.

- While we acknowledge the challenges that we all face in providing services with limited resources, we are prepared to work together with all stakeholders in meeting those challenges.

- Thank you, again, Madame Chair and Senators.

SHRA

INVESTING IN COMMUNITIES

SENATE COMMITTEE
ON
GOVERNANCE & FINANCE
TESTIMONY BY
LA SHELLE DOZIER, MEMBER
CALIFORNIA ASSOCIATION OF HOUSING AUTHORITIES

Good morning and thank you for allowing me this opportunity to speak with you today.

My name is La Shelle Dozier and I am the Executive Director of the Sacramento Housing and Redevelopment Agency. SHRA is a joint powers agency that serves the dual role of both the housing authority and redevelopment agency for the city and county of Sacramento.

SHRA is the region's largest Housing Authority, serves over 50,000 extremely low income residents, essentially a small city, with over 3,000 public housing units and over 11,000 Housing Choice Vouchers.

I speak to you today as a member of the California Association of Housing Authorities, an association of over 65 Public Housing Authorities.

I have with me today a letter of support from CAHA that supports the continuation of redevelopment in the State of California.

As Housing Authorities, we are particularly concerned with the proposal to eliminate redevelopment agencies. We see and serve the most vulnerable families and have extensive waiting lists of families seeking safe and stable housing.

Redevelopment and the tools it offers, provides the necessary resources to create and preserve affordable housing, as well as to provide the necessary "place" or community for many of residents to live and work.

I would like to talk about three important points for your consideration.

1. REDEVELOPMENT AND HOUSING AUTHORITIES ARE COMPLEMENTARY AND IN MANY WAYS ARE VITALLY CONNECTED

The redevelopment agencies and housing authorities serve lower income communities through different approaches.

Redevelopment Agencies serve disadvantaged lower income communities, by providing safe and vibrant environments through investment in housing, parks, community centers, safe streets, access to healthy food and by definition, redevelopment agencies work to eliminate the negative influences of vacant and blighted properties.

The primary mission of Housing Authorities is to provide safe quality housing opportunities for low income families, in many cases, public housing is located in redevelopment areas, some of the most economically and socially challenged communities.

Redevelopment helps to level the playing field in these disenfranchised and distressed neighborhoods by investing local funds that leverage federal resources and private capital to improve the health and well being of the people who live there.

In Sacramento's ***Oak Park redevelopment area***, where one of our 16 public housing communities is located, redevelopment investment provided pedestrian level lighting, new sidewalks, curbs, crosswalks and landscaping to enhance pedestrian safety and improve access to local businesses for local residents including many public housing residents.

In addition, with community support, we demolished two troublesome liquor stores one near a public high school, decreasing crime and creating development opportunities for affordable housing.

Public Housing funds alone cannot provide these broader community investments that help uplift communities creating a sense of place and planting seeds that produce thriving neighborhoods.

Obviously, the value of redevelopment as a housing resource cannot be overstated.

The federal government through Housing Authorities is the largest investor in affordable housing. However, redevelopment serves as a key tool for the development of new affordable housing.

In fact, it is the State's primary producer of affordable housing

In Sacramento, more than 10-thousand units of housing for very-low income and homeless families were created over the past six years using redevelopment.

Without redevelopment the investment of more than $81 million in funds set aside for affordable housing, which leveraged over $1 billion in private and public capital for housing would not have happened.

This leads me to my second point:

2. REDEVELOPMENT LEVERAGES FEDERAL DOLLARS AVAILABLE TO HOUSING AUTHORITIES TO IMPROVE COMMUNITIES

The redevelopment link provides the local match to ensure that California Housing Authorities are well positioned to compete for limited federal dollars to create, preserve and improve affordable housing.

In Sacramento, $3.2 million in tax increment funds leveraged $10 million in competitive federal recovery funds exclusively awarded to California to rehabilitate our downtown public housing high-rise for extremely low income seniors.

But for redevelopment funding, leveraging those competitive funds would not have been possible.

Public Housing is often the safety net for the most vulnerable population in our communities and it continues to grow.

The new face of public housing is thousands of families displaced by the foreclosure crisis which has forced them out of homeownership in search of affordable rental housing.

Despite this unprecedented surge in the ranks of those in need of housing assistance, resources are stretched thin by diminishing funding from the federal government.

Yet housing authorities are continually being charged to do more with less.

Dissolving redevelopment as a provider and monitor of affordable housing and shifting responsibilities to public housing authorities without significant resources would be tantamount to an unfunded mandate.

Housing authorities simply do not have the financial resources to assume the obligation for monitoring and recapitalizing affordable housing created with redevelopment resources.

Even if housing balances were transferred to local housing authorities as suggested under the governor's budget proposal, it represents only **one time funding.**

After those funds were depleted, housing authorities would find themselves seriously overburdened and unable to fulfill State housing mandates and goals without the local resources required to maintain those units when they begin to show signs of wear and tear—and to preserve their affordability into the future.

Redevelopment also leverages federal funds to reposition large, severely distressed public housing properties and transform them into better communities.

The proven key to redevelop large housing authority properties are the Federal HOPE VI and Choice Neighborhood Programs which provide resources to change the shape of public housing and provide positive incentives for resident self-sufficiency and comprehensive services that empower residents.

San Francisco Housing Authority's HOPE VI success story is the revitalization of ***Valencia Gardens***, a safe, supported community integrated within a vibrant neighborhood.

The $66 million development replaced more than 240 dilapidated and blighted housing units—plagued by drug dealing, violence and obsolete plumbing and sanitation—with 260 affordable homes for extremely-low and low income families and seniors.

Sacramento plans to replicate San Francisco's success by repositioning nearly one-thousand units in three of its oldest public housing communities.

Redevelopment holds the key to hope for the 28-hundred residents in these communities that would benefit from this opportunity.

3. ELIMINATING REDEVELOPMENT WOULD HAVE UNINTENDED CONSEQUENCES IF HOUSING AUTHORITIES WERE LEFT TO FILL THE GAP

Without redevelopment funds to provide the local match to create and maintain affordable housing, immeasurable leverage of federal, state and private resources will be lost.

Communities that desperately need these resources would never be able to pull themselves up and out of their despair but for the tools redevelopment.

There is no better example of how redevelopment and public housing can work together to achieve shared goals, than Sacramento's ***Phoenix Park Community Rebuilding project.***

It was called Franklin Villa when it was developed in 1969 as an ownership community of more than 900 condominiums for seniors and families.

But the concept never took hold and less than 10 years later, the murder of 51 year-old Harry Peterson, the first of many homicides in that community, triggered a downward spiral of investor ownership, absentee landlords, neglected maintenance and rampant violent crime.

Over the next three decades, multi-jurisdictional partnerships made numerous escalating attempts to take back the community, but none effectively addressed the problems.

The final solution was the Housing Authority stepping in to purchase privately owned properties using a $7 million redevelopment investment which leveraged $84 million in public/private funding.

Today, the old Franklin Villa is now Phoenix Park, a newly rebuilt community of 364 units of affordable rental apartments for seniors and families maintained by the Housing Authority.

This investment created a partnership with public safety resources dedicated to the community, and after-school programs to support neighborhood schools which are helping to boost attendance and keep kids out of trouble.

Phoenix Park is a thriving community for low income residents but without both Housing Authority and redevelopment tools and partnership, could not have happened.

Other intended consequences must not be overlooked, such as:

- Monitoring of all affordable housing units
- No ability to recapitalize affordable housing developments after 15 years
- Significant loss of on-going affordable housing after Year One
- Foreclosure and economic downturn increasing the demand for public housing that is already challenged
- Working poor become poorer causing further drain on public housing

In closing, Housing Authorities have partnered with redevelopment agencies to revitalize public housing, create good neighbor relationships and provide a needed boost of vitality where no other resource could do the job.

These essential entities are experienced at solving problems that have defied solutions, and meeting the needs of our communities through effective partnerships, innovation, flexibility and sheer dedication for the good work that we do.

Redevelopment agencies and public housing authorities are ready to partner with the State to find workable solutions that ensure the full benefit of these resources are available all communities.

Thank you.

California Association of Housing Authorities
1006 4th Street, 6th Floor | Sacramento, CA 95814

February 9, 2011

Honorable Governor Jerry Brown
c/o State Capitol, Suite 1173
Sacramento, CA 95814

Dear Governor Brown:

On behalf of the California Association of Housing Authorities (CAHA), representing over 65 Public Housing Authorities serving over 300,000 low-income residents, I am writing to express our opposition to the budget proposal to eliminate redevelopment.

We stand behind California's ten largest city mayors, the League of California Cities and the California Redevelopment Association in saying that the proposal to eliminate redevelopment removes one of the State's most effective community and economic development tools. Not only will this action result in tremendous job loss, but more importantly for CAHA, it also poses a significant threat to a primary producer of our State's supply of affordable housing.

Recognizing that where people live impacts their health and well being, the new Federal agenda encourages transformation of distressed neighborhoods, exemplified by redevelopment, and is providing new funding such as Choice Neighborhoods and Promise Neighborhoods. We as a State cannot afford to lose redevelopment as a tool, and along with it, our competitiveness for these precious federal resources to create vibrant communities while also housing our most vulnerable.

Redevelopment is the resource invested to rebuild our communities and provide the construction and permanent jobs necessary to lift our residents out of poverty and into employment. For many years, our Housing Authorities have partnered with Redevelopment Agencies to invest tax increment funding to preserve and construct affordable housing, to revitalize public housing, and provide safe communities along with hope for a brighter future. Public housing, which has been Federally under-funded for decades, typically serves the State's most vulnerable populations with the lowest incomes, and without redevelopment, we would be unable to preserve this valuable resource for California.

We stand ready to partner with our mayors and redevelopment agencies in thoughtful discussions about appropriate solutions to the State budget. We urge you to reconsider your decision to make this drastic budget cut. If you have any questions, please contact Mary Ellen Shay, CAHA Director, via phone at (916) 444-0288 or myself at (562) 929-5531.

Sincerely,

K. Maithonis

Kristin Maithonis
President, California Association of Housing Authorities

CC: State Legislature
Assembly
League of California Cities
California Redevelopment Association

Redevelopment: The Unknown Government

What it is. What can be done.

Assembly Member Chris Norby gave copies of this 40-page report, published by Municipal Officials for Redevelopment Reform (MORR), to the members of the Senate Governance & Finance Committee. To obtain your own copy, please contact Assembly Member Norby at (916) 319-2072 or send him an email message: assemblymember.norby@assembly.ca.gov

A Report to the People of California

September, 2007

Californian's United for Redevelopment Education

Jean Heinl

8917 Alexander Ave.

South Gate, Ca. 90280

February 9, 2011

Legislative Oversight Committee

Chair and Members;

RE: Support Governor Brown's budget proposal to eliminate redevelopment agencies

Sherry Curtis & I attended a Senate Sub- committee Thurs. February 3-2011, of the standing room only hearing 99 ½ % were the people who benefit the most from Redevelopment, The League of Cities & CRA. Only two people spoke supporting Governor Brown's proposal, Sherry Curtis & The Fire Dept. Union. I suggest that the Legislature have hearings out in the Community of Los Angeles or San Diego, so ordinary citizens & Taxpayers most affected by Redevelopment Abuse can afford to attend.

At the Senate sub-committee hearing the question was asked of the Senators "why do you rely on a 20 year old report for information, "The Michael Dardia Study on "Subsidizing Redevelopment in California"? It was published January 1998 by the Public Policy Institute of California. It was negative toward RDA'S, so they don't like it.

Other reports & studies to look at are:

State of California Community Redevelopment Agencies Annual Report. Government Code section 12463.3 requires the State Controllers Office to compile & publish a report of all the financial transactions of community redevelopment agencies.

The Joint Legislative Audit Committee requested the state Auditor Kurt Sjoberg to do a report on the status of excess surplus balances in the low & moderate income housing funds. The Auditor concluded that the actual balances are far less than reported, also the audit suggests that more state wide oversight may improve reporting of excess surplus balances & improve redevelopment agencies' compliance with statewide requirements regarding set aside & spending of property tax increment revenue for affordable housing. This audit was done in 1998. So this problem has been long term.

The Institute for Justice is a nonprofit, public interest law firm that litigates to secure economic liberty, school choice, private property rights, freedom of speech & other vital individual liberties & to restore constitutional limits on the power of government. Founded in 1991, IJ is the nation's only libertarian public interest law firm, pursuing cutting edge litigation in the courts of law & in the court of public opinion on behalf of individuals whose most basic rights are denied by the government.

Last year 2010 IJ did studies of 8 large cities across the US. The one that is important here is the City of Los Angeles. The title is *L.A. vs Small Business, City of Angels No Heaven for Entrepreneurs*. In the Introduction page 1 :

Consider a few facts:

From January 2008 to January 2010 LA lost 150,000 jobs

In January 2010, the city's unemployment rate reached 14.4 percent

A November 2009 survey found that 74% of LA business owners characterize the city as unfriendly to business

In a recent study of the country's most vibrant metropolitan areas for small business, LA ranked 47^{th}

This report highlights just a few of the regulatory barriers that hardworking Angelenos face every day in trying to launch, run or expand a business. Many of the obstacles are created by the city itself, others, by county or state government. Regardless of their source, however these barriers make it difficult, if not impossible for entrepreneurs to earn an honest living in the City of Los Angeles.

A recent article in City Watch L A "the CRA has been in Downtown L A for 30 years & spent $750 million, but in a court proceeding claimed the project area was still blighted & they need more time & more money."

"Redevelopment does not eliminate blight." The legal definition is so elastic & vague almost any urbanized area in the city could be declared "blighted', sometimes graffiti is called blight.

I first became aware of Redevelopment in 1991 when we got a notice from the City of South Gate that our commercial was in a proposed "Commercial Corridor" project area. I educated myself about redevelopment & was elected to the Project Area Committee (PAC) & educated other PAC members. We voted not to have redevelopment.

I testified at a Senate Hearing on RDA'S in 1995 where Fullerton Councilman Cris Norby was also telling of the abuses of RDA'S. That year we formed a group Californian's United for Redevelopment Education (CURE) , teamed up with Municipal Officials for Redevelopment Reform (MORR).

In October 1996 the first edition of "Redevelopment The Unknown Government" was published, affectionly called the RUG by the CRA. Close to 100,000 copies have been sent all across California & other states to help Citizens to defeat this confuluted process called Tax Increment financing (TIF).

The City of South Gate did pass a Commercial Corridors project area Amendment #13 in April of 2009 which includes my commercial property. RDA removed eminent domain from the project area for now. A new council or City Manager could do another Plan Amendment & add it back in.

September 3, 2004 I was one of four property owners in the City of Riverside to file a law suit to invalidate the proposed 8,000 acre La Sierra/Arlanza project area. This 8,000 acre area included 1,000 new privately developed homes in the Riverwalk Parkway, former La Sierra University land, my 4 acres of rural zoned land & vacant land, the Tyler Mall with a new Nordstroms. I have here the Objections to the La Sierra/Arlanza Redevelopment Plan with pictures I took of some of the so called "blighted properties" our Attorney C. Robert Ferguson filed with the City of Riverside City Clerk. In 2005 several plaintiffs withdrew from the lawsuit, they could not afford to pay the Attorney. Our Attorney did a settlement, some property was removed but not the 1,000 new homes. According to the State Controllers Annual Report the equity in the La Sierra/Arlanza Project Area is $72,035,241. Of the 7 project areas the next highest Downtown Riverside is $56.982,099.

The Long Beach Downtown Project Area included our 10 units we had owned since 1961. June of 2005 The Long Beach RDA finally decided on a developer for the block our 10 units were in, the RDA'S Consultant notified us we were going to be Eminent Domained. The first offer from the Agency was $145,000 for 10 units Downtown Long Beach. The Relocation Consultant did not treat our renters fairly. When a property owner is forced to sell under the threat of eminent domain you are put into a higher tax bracket. Since we owned it so long there was a hugh capitol gains tax pending. I chose to reinvest in property in northern California.

For all the above reasons I fully support Governor Browns Budget Proposal to shut down the RDA'S.

Sincerley;

Jean Heinl

Californian's United for Redevelopment Education (CURE

Additional resources for you education:

Field of Schemes, " How the great Stadium Swindle turns Public Money into Private Profit" by Joanna Cagan & Neil DeMause

Readers Digest published a report by Tim Keown, " The Stadium Shell Game"

"Abuse of Power: How the government Misuses Eminent Domain: by Steven Greenhut of Pacific Research Institute

"Plunder! How Public Employee Unions are Raiding Treasuries, Controlling our lives and Bankrupting the Nation" : Steven Greenhut of Pacific Research Institute

"Corner Stone of Liberty- Property rights in the 21st Century America" by Timothy Sandefur of Pacific Legal

"Property Rights-Eminent Domain and Regulatory Takings Re-Examined" published by The Independent Institute

A Snapshot of Alameda

I am Gretchen Lipow, a retired teacher from Alameda, a small city of 72,000 located in S.F.east bay. I want to share with you how redevelopment has run amok in our community. In 2008 we discovered online an agreement signed off in 1991 by our school district and our redevelopment agency to direct money into an affordable housing/ capital outlay fund. Inquiries to the school district and the city indicated no one knew of this agreement. I had been a member of the teacher negotiating team at the time and neither I nor my team had any knowledge of this agreement. So here we were twenty years later on a search to locate these lost funds of an undetermined amount. It was finally located commingled in the city's general fund. Further sleuthing determined it was approximately 4 million dollars. The city released that portion designated for capital outlay but the remaining 3 million still remains in the city vault because it was designated for affordable housing for school district employees; however upon further examination it was in a category that none of our employees qualified.

Until last week our city was bonded at 300 million but in an effort to come in under the wire the city council voted to bond an additional $235 million for projects with no actual plans as of yet, and this is occurring right in the middle of a parcel tax campaign, of course requiring a 2/3rd vote. Sadly our last parcel tax failed by 200 votes. But is it fair that 200 million dollars can be voted on by a simple council majority while a school parcel tax requires 2/3 of the voting public? Something is very wrong with this picture.

Last year Alameda citizens were bombarded by a redevelopment company SunCal and their financial backer –a lucrative hedge fund, D.E. Shaw. They took their plan to ballot – a takeover plan that would have literally given away the entire old Navy base, severing all connections to the city political structure but not before utilizing redevelopment bonds, all 700 million dollars. This multi-billion dollar hedge fund was not about to do the infrastructure investment themselves, and why would they, when redevelopment bonds were available? 85% of the Alameda citizens saw the risks involved and rejected their plan. Now the developer is suing us for 100 million dollars with separate lawsuits against the past city manager and the city attorney. They are claiming that we will use their plans after they did all the work!

I'm providing a chart that shows when the amount of taxes taken for redevelopment (14 cents) on the dollar, the amount for schools correspondingly decreases.

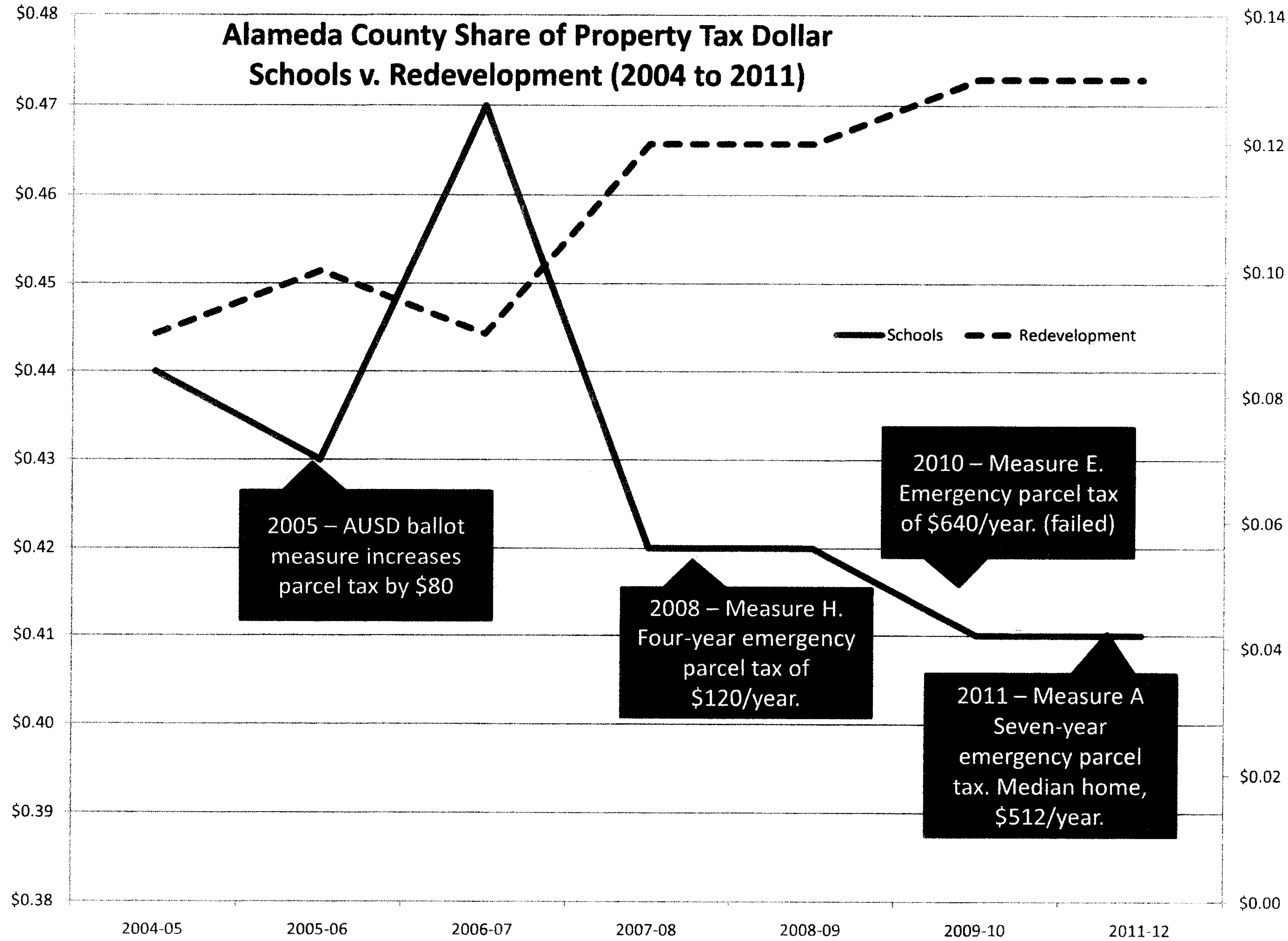
We are very aware of our nearby neighbor city of Hercules. They were the poster child for redevelopment. Today they are the victim of over bonding. Citizens of Hercules are so distraught –since they are bearing the burden of the payback- they are organizing a recall and as of yet they have no opposition candidates to support. You can't blame folks for not wanting to be on a city council that is facing possible bankruptcy.

Yes, redevelopment has beautified our two main streets and built a small shopping mall, restored a historical theater and erected a giant parking structure, but redevelopment also developed a sprawling business park that is half empty. But don't forget, the payback is coming out of our taxes. The decisions to do all these projects were not ours but we are paying for them out of our taxes. And our present bonded indebtedness of 300 million will finally be paid off when our grandchildren are old. By that time all these structures will need serious upgrading, that is if they are still standing.

Here's the downsides in our community, In the Alameda schools this year teachers and staff are facing 8 less work days, and the 10,000 students, 5 less instructional days. If redevelopment was working in our town why would our teachers and students suffer such a loss? And if redevelopment was working in this state why would CA be 43rd in the nation of per pupil expenditures?

This is why I am supporting Governor Brown's budget proposals.

Gretchen Lipow Gretchen Lipow
2242 San Antonio Avenue
Alameda, CA 94501


Alameda County Share of Property Tax Dollar
Schools v. Redevelopment (2004 to 2011)
$0.48
$0.47
$0.46
$0.45
$0.44
$0.43
$0.42
$0.41
$0.40
$0.39
$0.38
$0.14
$0.12
$0.10
$0.08
$0.06
$0.04
$0.02
$0.00
Schools
Redevelopment
2005 – AUSD ballot measure increases parcel tax by $80
2008 – Measure H. Four-year emergency parcel tax of $120/year.
2010 – Measure E. Emergency parcel tax of $640/year. (failed)
2011 – Measure A Seven-year emergency parcel tax. Median home, $512/year.
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2011-12

JOSE D. TRUJILLO
AFSCME, COUNCIL 36 V.P.
13212 STANBRIDGE AVE.
DOWNEY, CALIFORNIA 90242
Jose_trujillo8@msn.com
(562) 745-4996

JOSE D. TRUJILLO
COMMUNITY REDEVELOPMENT AGENCY
of the CITY OF LOS AANGELES
3055 WILSHIRE BLVD. SUITE 1120
LOS ANGELES, CALIFORNIA 90010
jdtrujillo@cra.lacity.org
(213) 276-8103

CALIFORNIA DISTRICT COUNCIL 36

STEVE KOFFROTH
BUSINESS REPRESENTATIVE

514 SHATTO PLACE, 3rd FLOOR
LOS ANGELES, CA 90020
TEL: (213) 252-1355
FAX: (213) 487-9822
EMAIL: skoffroth@afscme36.org

American Federation of State, County and Municipal Employees.
AFL-CIO

District Council 36

514 Shatto Place
3rd Floor
Los Angeles, CA 90020
Phone (213) 487-9887
Fax: (213) 487-9822
Web http://afscme36.org

Cheryl Parisi
Executive Director

AFSCME Council 36

Position Paper on California State Budget
February 2011

AFSCME Values

AFSCME members understand the severity of the fiscal crisis and the challenges faced by our state's leaders. We are committed to being a part of the solution. We will work together to:

- Protect the fragile safety net;
- Maximize rehabilitation opportunities for incarcerated and monitored juveniles and adults while protecting our communities; and,
- Promote a vibrant business environment to put California on the road to recovery and beyond.

AFSCME members are dedicated to helping State leaders secure passage of revenue proposals planned for the June 2011 Special Election, but the California Legislature must restore the Wilson-era tax rates for the top one percent of Californians to restore $4 Billion worth of critical services.

Program cuts required by the Legislature must be strategic and based on legally permissible policies. The budget must not be balanced on the backs of the poor; rather, all Californians must feel the pain.

Realigned programs must include sufficient funding to cover the full range of services currently provided by the state to assure positive outcomes.

Realignment

To achieve positive outcomes, the design of realigned services must be done in close coordination with the experts who will be providing services at the local level – AFSCME members. The realigned services must be performed by those departments with extensive experience providing similar services, and counties must be given the flexibility at the local level to design programs in a way that is optimum for the local region.

To avoid a financial collapse at the local level, any realignment must have funding for the entire continuum of services provided in the criminal justice system. Funding provided for realigned services must be constitutionally protected.

Mental Health

Mental health responsibilities through realignment must come with new revenues. Proposition 63 (Mental Health Services Act) funds cannot be utilized for purposes other than those approved by voters, and affirmed by the courts.

The State must pay for all state-mandated services, including those unfunded services provided in prior years. All state-mandated services for schools must come out of the school budget.

Redevelopment Agencies

Redevelopment Agencies (RDAs) support the funding for local public services that are most important to the State's long-term success. The State is best served by continuing public support of RDAs. If it were not for RDAs, our communities would have continued on an awful spiral of blight and poverty.

Eliminating redevelopment would destroy the promise of hundreds of thousands of private sector jobs and billions worth of public services each year. Killing redevelopment agencies would undermine the long term funding for schools, libraries, police departments, community health clinics, and neighborhood parks.

Courts

The Administrative Office of the Courts (AOC) must redistribute funding to offset the cost of court security.

Child Support

The State match for Child Support must be continued to protect the well-being of California's children.

Mechanics

Assure that revenue to fund maintenance comes with new responsibilities in realignment, and that maintenance services for programs like Cal-Fire are not contracted out.

CRA/LA

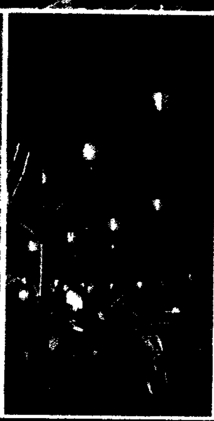
Redevelopment Projects at Risk
STATE BUDGET CRISIS 2011 BRIEFING BOOK

AGENCY-WIDE GRANT FUNDING

PROP 1C
$100 million in grant funds used to improve public infrastructure to facilitate affordable housing and transit-oriented in-fill development.

PROP 84 PARKS
Nearly $30M in Prop 84 Grant funding for parks within our Downtown and Hollywood & Central Regions.

DOWNTOWN



CLEANTECH MANUFACTURING CENTER
Land Acquisition, Public Improvement and Infrastructure for Twenty acre, CRA/LA-owned opportunity site for clean industrial development.

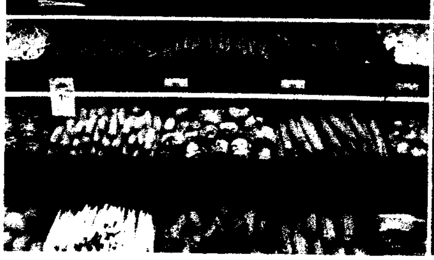
BLOSSOM PLAZA
Mixed-use development adjacent to Chinatown Gold Line Station. Includes affordable rental units, commercial space, an outdoor cultural performance plaza, and public parking ad a bike station. Blossom is proposed to bring nearly 1,000 construction and 112 permanent jobs.

GRAND AVENUE
Three phased mixed use development of parcels owned by CRA/LA and LA County to include 5 start hotel, commercial space, and streetscape improvements. Catalytic mixed use project, area beautification, construction local hire, increased supply of housing stock.

SRO HOUSING
Provide annual funding for programming, operations, maintenance services and administration of emergency, transitional and permanent supportive housing.

CHINATOWN CULTURAL CAPITAL PLAN
Various public improvements related to making Chinatown a world-class capital, including historic and cultural education, art exhibitions, and public events.

SOUTH LOS ANGELES



FIGUEROA AND CRENSHAW CORRIDOR PUBLIC IMPROVEMENTS
Corridor-wide improvements on Figueroa and Crenshaw to improve the public infrastructure

WATTSSTAR THEATER
35,000 sq. ft. theatre & education center

MARKET CONVERSION PROGRAM
Transform convenience stores and small markets located within CRA/LA Project Areas into neighborhood community markets that offer fresh produce, and to fund exterior and interior improvements that enhance the community. The CMC Program will create and expand the capacity of business owners to provide expanded grocery services to areas lacking in supermarkets, sit-down restaurants or other healthy food outlets and will improve the overall attractiveness of the commercial corridor.

EAST VALLEY

VALLEY PLAZA SHOPPING CENTER
Redevelopment of the 22-acre shopping center located at the intersection of Laurel Canyon and Victory Boulevards.

INDUSTRIAL INCENTIVE PROGRAM
The IIP provides up to $100,000 in grants and up to $250,000 in conditional loans to provide assistance to industrial businesses seeking to locate, expand or green their operations in connection with the rehabilitation or development of industrial properties in CRA/LA project areas.

NOHO SENIOR ARTS COLONY
Development of a 126 unit senior residential project including 27 very low-income units located at 11047 Magnolia Boulevard to be developed by Meta Housing Corporation.

WEST VALLEY

RESEDA THEATRE
Adaptive reuse of 50-year old abandoned theater and adjacent vacant lot, both are owned by CRA/LA.

RESEDA TOWN CENTER
Development Opportunity site where CRA/LA owns 2 parcels.

HOLLYWOOD AND CENTRAL

WESTLAKE THEATRE
Acquisition and rehabilitation of the historic Westlake Theater as a mixed-use entertainment venue. State of the art lighting and sound systems and a modular and flexible stage system would be installed to accommodate multiple event configurations. The space will also include Culture Clash offices, meeting rooms and small classrooms for education programs. Development of a 52 unit affordable housing project on an adjacent site.

DISTRICT SQUARE
OPA w/the Charles Company to create a new two-story, approximately 300,000 sq ft retail shopping center.

KOREATOWN YMCA
New 2-story approx 30K SF community recreational facility w/adjacent 3-story parking structure (w/teen center on roof of parking structure) built to LEED Silver standards.

HARBOR

BLOCK 27 INDUSTRIAL DEVELOPMENT
Remediation of contaminated property and major expansion of existing cold storage business.

EASTSIDE

BOYLE HOTEL/FIRST AND BOYLE
Rehabilitation of historic hotel as 51-units of affordable housing and ground floor commercial use.
Development of new mixed-use artist housing across the street from Metro Gold Line Mariachi Station.

BIOMED FOCUS AREA
Implementation plan for infrastructure necessary to redevelopment Biomed Focus area, including transportation, public and private utilities.

VALUE OF REDEVELOPMENT – CRA/LA

1) **The CRA is the city's economic engine – the one tool we have to bring economic recovery:**

We work with community to create long term revitalization plans

We promote and provide incentives for catalytic economic development projects

We provide needed infrastructure improvements to pave the way

2) **What happened in our project areas was not going to happen on its own**

EXAMPLE OF SUCCESS:

With the close out of Central Business District, the city, county and schools are reaping the benefits of what CRA/LA accomplished in South Park, LA Live and the Financial District.

Base year value: $387M vs. 2010-11 value: $ 6.5B

CRA helped add over $6B in Incremental value

Base Year taxes: $388,000 vs. 2010-11 taxes: $65.5M (of which the city gets $21.6M)

3) **CRA/LA equals job production**

At-Risk Pipeline: Elimination of the CRA will potentially take away 75,000 construction jobs and over 40,000 permanent jobs.

Under Construction: We have 53 projects under construction that leverages $1B with our $100M

Recent Investment: Over past few years during difficult times, CRA's investment has provided 27,000 construction jobs and 5,500 perm jobs

4) **CRA/LA is implementing an economic development strategy**

Engaging key sectors where we expect there to be job growth and creating targeted initiatives to bring those industries to LA – to our project areas that have the capacity to accommodate those activities.

5) **Redevelopment in the City of Los Angeles works:**

The State's proposed action as it relates to redevelopment in the City of Los Angeles is based upon a lack of understanding of the City's program.

The State Department of Finance believes that we cannot afford the luxury of redevelopment in today's times. We know redevelopment as practiced in Los Angeles is not a luxury but a vitally needed tool to provide hope, and economic renewal

It is not a luxury to provide 2,200 housing units for the chronically homeless in the next 5 years, on top of the hundreds already provided, thereby reducing demand for public safety and social welfare services and a road to returning to the mainstream economy

It is not a luxury to provide nearly 25,000 units of decent, affordable housing, allowing residents to provide for their families and contribute to the local and state economy, and lessen the demand on local and county governmental social services

It is not a luxury to provide local construction jobs, which without the CRA/LA's affordable housing, public improvement and commercial development programs, simply would not exist, further burdening the state, county and local service providers.

It is not a luxury to provide small businesses with low cost loans and grants tied to employment generation, where employment growth is the only way the State of California will find its way out of its budget crises on a sustained basis.

CRA/LA
BUILDING COMMUNITIES

MAKING AFFORDABLE HOUSING POSSIBLE

The Community Redevelopment Agency of the City of Los Angeles

The Community Redevelopment Agency of the City of Los Angeles (CRA/LA) has been a leader in housing, economic development and neighborhood revitalization for more than 60 years.

Within our seven regions, CRA/LA invested $178 million last year in housing, economic development, and neighborhood revitalization projects. Last year, CRA/LA invested more than $47 million in affordable housing projects and programs.

WHY CRA/LA IS THE CITY'S LEADER IN AFFORDABLE HOUSING

- CRA/LA focuses investments in neighborhoods with the highest poverty rates in the city
- CRA/LA targets investments in the communities that need the most economic assistance
- CRA/LA housing creates living wage jobs through our Construction Careers and Prevailing Wage Policies
- CRA/LA investments are catalytic, creating economic development throughout the community
- CRA/LA can invest early and partner with developers in higher-risk projects
- CRA/LA works with non-profit and for-profit housing developers; 60 percent of our projects are being developed by non-profit community-based housing developers

FACTS BEHIND CRA/LA'S HOUSING SUCCESS

CRA/ LA has assisted with the development or rehabilitation of nearly 25,000 homes; 90 percent of which are for low or moderate-income families.

CRA/LA currently monitors more than 20,000 rental units of affordable housing and more than 500 affordable homeownership units.

There are 78 housing projects under construction or in the pipeline, which when completed will provide more than 15,000 rental units; more than 5,000 of which will be affordable.

Over the next five years, a partnership with the City of Los Angeles will invest in 2,200 new supportive housing units for the homeless community.

There are 59 TOD projects in the Los Angeles area with 32 located in or near a CRA/ LA project area.

CRA/ LA is taking action to preserve more than 3,600 affordable housing units whose affordability covenants expire on 2015.

CRA/LA has invested $20 million in homeownership opportunities for low- and moderate-income households to create more than 500 homes.

CRA/LA

CRA/LA COMMUNITY AND ECONOMIC IMPACT

PIPELINE AND RECENT INVESTMENTS

	PIPELINE INVESTMENTS AT RISK				RECENT INVESTMENTS			
	Approved	On Hold	Pre-Approved	Total	Under Construction	Recently Completed (Since 2009)	Total	Grand Total
Construction Jobs (estimated)	18,634	37,040	20,064	75,738	5,209	21,932	27,141	102,879
Permanent Jobs (estimated)	12,369	13,079	18,529	43,977	1,997	3,883	5,880	49,857
Total Jobs	31,003	50,119	38,593	119,715	7,206	25,815	33,021	152,736
Affordable Housing Units	2,435	308	3,401	6,144	2,207	2,934	5,141	11,285
CRA/LA Investment	288,537,031	68,662,187	377,778,436	734,977,654	98,684,663	163,474,889	262,159,552	997,137,206
Outside Investment	2,534,527,510	6,073,550,000	1,806,099,368	10,414,176,878	1,022,573,869	4,564,605,106	5,587,178,975	16,001,355,853
Total Investment	2,823,064,541	6,142,212,187	2,183,877,804	11,149,154,532	1,121,258,532	4,728,079,995	5,849,338,527	16,998,493,059

The Impact of Eliminating Redevelopment Agencies

In order to understand the goals and purpose of redevelopment we can look to the recent national financial downturn: a significant number of citizens in financial hardship + depressed property values + investors afraid to use their resources because the risk is too high = negative consequences for us all. And it was public investment that prevented a full economic depression. This is why you will find nearly unanimous support from local officials for redevelopment – because when you have a preference to build/buy/rent where the property values are vibrant or growing, everyone in and around falling or stagnant areas suffer. The resulting downturn in tax revenue impairs the delivery of important public services to the community, causing a further spiral.

The means and expertise of redevelopment agencies (RDAs) leverages a relatively small portion of public resources to create an economic engine and a public benefit where the private sector, alone, could or would not:

- Creating short and long-term jobs that can sustain families
- Compelling the creation and rehabilitation of housing with affordable rent and necessary amenities
- Revitalizing communities through public infrastructure like roads, lights and parks, and
- Addressing environmental and social concerns like brownfields, transit congestion, and green building

Studies about the success of RDAs statewide have consistently proven over $40 billion in economic value for the State:

- RDA activity was responsible for the creation of **304,000 full and part time jobs (about half in construction)** in California in the 2006-07 fiscal year (310,000 in 02-03).
- **State income was increased by $22.74 billion** because of RDA-associated construction in 2006-07 ($16.56B in 02-03). **Every dollar** of RDA spending **increases state income by more than $7.**
- **Every dollar** of RDA spending **generates nearly $13 in instate sales** of goods and services.
- RDA construction activity resulted in an **increase of $2 billion in tax revenues** for state and local governments for 2006-07 ($1.58B in 02-03).
- **Every dollar taken away** from RDAs to balance the state's budget **reduces state and local government tax revenues by about $0.64 – a net positive effect of only 36 cents.** The Governor's proposal would take $2 billion from RDAs with a net return of just $210 million to local government.

The Governor's proposal is therefore not a simple choice between redevelopment and other health, human service, and educational programs. Killing redevelopment agencies undermines the long term funding for schools, libraries, police departments, community health clinics and neighborhood parks. Cutting redevelopment destroys hundreds of thousands of private sector jobs and billions worth of public services each year.

This is not to say that redevelopment agencies should not help in our current fiscal crisis – in fact, RDA employees care passionately about serving and protecting their communities. For example, instead of ending RDAs, use redevelopment funds that are reserved for the long term to temporarily support other programs.

Furthermore, the State should not create an additional administrative nightmare by ending one RDA agency simply to create another in its place – in the alternative, workers must be assured that they will retain their jobs and benefits if the work is transitioned to other entities. Nevertheless, if the end of RDAs or their funding cannot be prevented, then the State must not compound its fiscal problems by adding thousands of RDA jobs to the unemployment line. The State must account for the cost of unfunded obligations like medical, pensions, etc. that is associated with terminating RDAs and transition as many of these jobs onto the retirement rolls rather than unemployment.

RDAs support the local public services that are most important to the State's long term success. Especially in these troubled times, the State is best served by continuing public support of redevelopment activities.

Debunking the Governor's Proposal to Eliminate Redevelopment Agencies

The Darwin theory of development does not work.
The Governor relied upon a 1998 report to posit that development would have happened even without the incentives used by redevelopment agencies (RDA). The hard facts are that developers have a preference **against** developing in poor areas – the return is usually low and the risk is high. On the other hand, poor areas produce lower levels of tax revenue (both in property and sales), but the need for government services like police, fire, and schools often outweigh what revenue they bring in. This fact drove local governments to the State for relief by creating redevelopment law more than 50 years ago. There is no evidence whatsoever, that this condition would change.

Redevelopment does increase tax revenue.
The Governor relied on the same 1998 report to say that redevelopment doesn't positively affect tax revenues. That same report cites that more than a majority of project areas did provide an increase in property tax – some as much as 400% - higher than similar control areas. In addition, subsequent studies show that redevelopment activities produce an additional $2 Billion dollars of tax revenue for the State every year.

Ending redevelopment agencies will NOT benefit schools.
The Governor paints his proposal as a choice between developers and schools, or fire, or police. This is not true. The LAO already admits that today, redevelopment provides more than $2 Billion dollars of "pass through" funding to schools, and other local services. In addition, redevelopment projects create tax revenue funding directly for schools. Under the Governor's proposal, the "pass through" money would remain the same. Therefore, funding for schools would actually decrease because they would no longer have the benefit of the new tax revenue from projects.

Ending RDAs **cannot** be done without impairing redevelopment law.
The Department of Finance testified that the Governor will keep the law intact – that ending the RDAs will not disable the law and that cities and counties will be free to recreate their RDAs if they wish. This is not only makes the proposal ridiculous, but it's untrue. Redevelopment law is based on the premise that redevelopment agencies automatically exist in every jurisdiction – that the elected body simply needs to act to put it into operation. Eliminating the agencies can only be done then by dismantling the law upon which they are based.

The Governor's proposal is a budget gimmick.
This proposal is simply the next round in the fight. A couple of years ago, the State tried to take money from RDAs. The RDAs sued and won. The following year, the State used their loss to dodge the minefields and take the money again. The RDAs sued and lost. The RDAs backed Proposition 22 to protect their money and the voters overwhelmingly agreed. The only way the State could get around Prop. 22 was to end the RDAs.

The Governor maintains that he wants local jurisdictions to decide how to deliver their services. Cities and counties across the State are hastily acting to protect their RDAs. If the State means what it says, then do not dismantle RDAs.

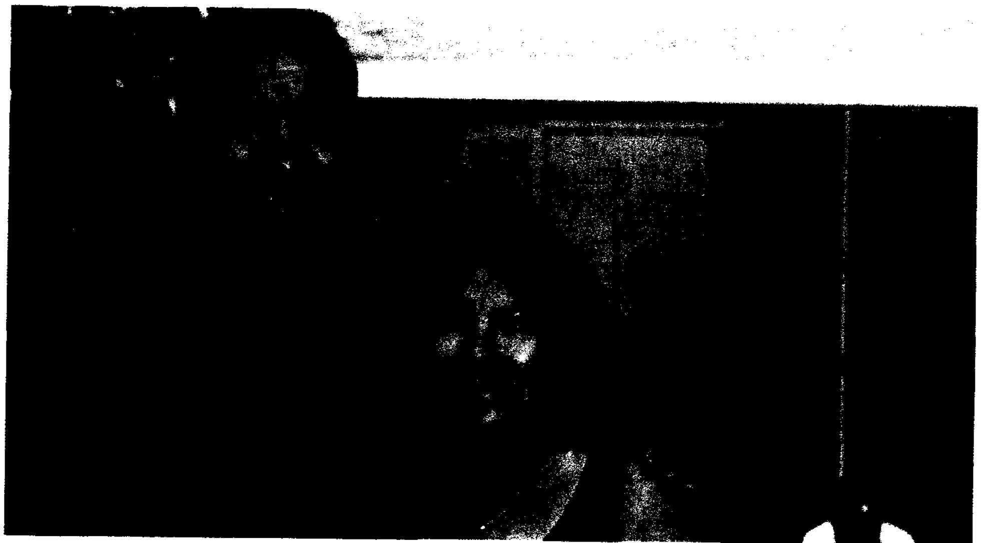
Alternatives to Ending Redevelopment Agencies

We understand that the budget problem cannot be solved without sacrifice or change. However, simply ending redevelopment agencies is a barbarian and counter productive approach. Instead the State should consider alternatives which retain the economic tool that cities and counties obviously want to retain.

1. Improving the definition of blight
    a. Social
        i. Crime levels
        ii. Educational performance
    b. Physical
        i. Dilapidation
        ii. Vacant Lots
        iii. Code Violations
        iv. Environmental Hazards
    c. Economic
        i. Poverty
        ii. Unemployment
        iii. Per Capita Income
2. Reform the opportunity for misuse
    a. Focusing redevelopment agencies on job creation
    b. Requiring the use of low-income housing funding
    c. Limiting the ratio of redevelopment project areas to total jurisdiction
3. Redirecting some tax revenue
    a. Increasing the percentage of "pass through" allocations to schools and other local services
    b. Lengthening the term of project areas and committing the additional funding to the State which could be used to bond for immediate resources
    c. Setting a limit on the ratio of property tax increment in relation to total property tax income

Community Redevelopment Agency
of the CITY OF LOS ANGELES

COMMUNITY SPEAKS



were pleased to be selected to participate in the CRA/LA's Neighborhood Pride Day in Watts. Staff from the CRA/LA were joined by city officials, the local fire department, Los Angeles Neighborhood Housing Services and the volunteers from the community to paint and landscape the Lopez home and three others in the Watts area.

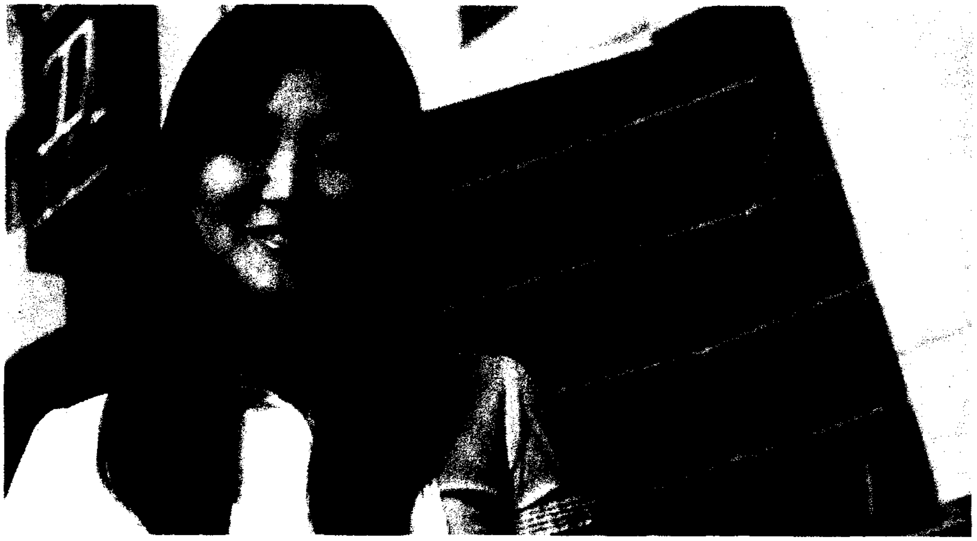
are proud owners of "Drapes 4 Show", a family-owned textile business. Thanks to financial support provided by the CRA/LA and the state, they were able to purchase land within the CRA/LA's East Valley Region. "Drapes 4 Show" was able to nearly double the space of their warehouse and will create new living wage jobs in the community.

is one of more than 200 Los Angeles residents who have been hired to work on the construction of the CRA/LA's Hollywood and Vine project, a mixed-income housing, hotel and retail project. Alnardo is benefitting from CRA/LA's new Construction Careers Policy, which helps area residents get access to good paying constructing jobs on projects funded by the CRA/LA.

are a multi-generational family that resides in one of CRA/LA's newest housing projects in our Chinatown Redevelopment Project Area. The Yale Terrace Housing development is rare in that it has has rental units that can accommodate large or multi-generational families.

works at the LA Conservation Corps, a non-profit organization that provides job skills, training, education and work experience to our city's youth. The CRA/LA currently employs LA Conservation Corps and three similar non-profits to help plant and maintain the many trees throughout our project areas.

is a Project Manager with the CRA/LA, working on Nikki II, a major project in South Los Angeles. Nikki II will transform a vacant lot into a catalytic, mixed-use development, with an affordable housing component and community-serving retail and commercial venues.



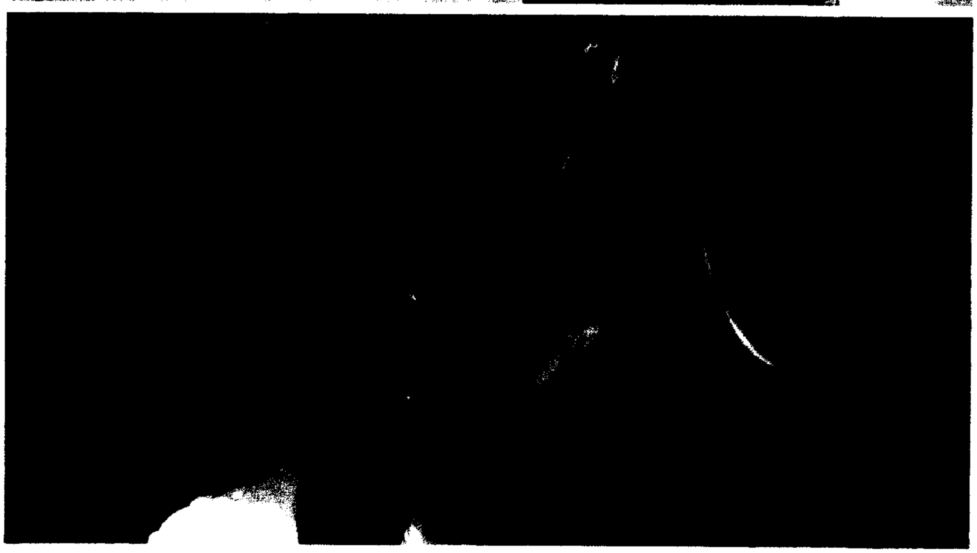
is a law student at a local university who now uses public transportation on a daily basis. For Jeannie, living above a Red Line station has made her daily commute shorter and more convenient. As the CRA/LA increases investment in developments located near transit hubs, residents like Jeannie are able to live closer to where they work.

, a 14-year old disabled resident at The Hobart, loves her new home and enjoys the view from the second-floor apartment she shares with her mom, Carolina Flores and dad, Milton Morales. CRA/LA partnered with American Communities, providing a $1.2-million loan for the $16.9-million development in Los Angeles' Koreatown.

, a resident at Morgan Place Senior Apartments, enjoys the smoke-free environment and fourth-floor view provided her in the CRA/LA-funded complex. CRA/LA partnered with Abode Communities, providing a $750,000 loan toward the $18.6-million project in South Los Angeles' Hyde Park.

shop, Dragonfly Stained Glass Studio, qualified for help from the CRA/LA West Valley Business Attraction and Retention Program. Joers received a $45,000 grant to redo his building façade and make interior tenant improvements. "It's beautiful," Joers says. "They spruced up the whole block by doing the store fronts in the whole neighborhood. They did a really nice job."

East Hollywood retirees, say they save 30% in heating gas bills thanks to the CRA/LA's Energy Conservation and Safety Program. The program in the East Hollywood Project Area provided them, free, a tankless water heater, attic and basement insulation and an automatic earthquake gas shut-off valve.



, a long-time Watts resident, is pleased with the $4-million upgrade and greening of the Westminster Park Plaza housing complex – thanks in part to a loan restructure involving the CRA/LA. Morrison says, "They rehabilitated the whole complex and made it more beautiful."

AFSCME
We Make America Happen

AFSCME LOCAL 2076

AFSCME eligibility workers understand the severity of the fiscal crisis and the challenges faced by our state's leaders. We are committed to being a part of the solution. We will work together to:

- ✓ Protect the fragile safety net;
- ✓ Maximize rehabilitation opportunities for incarcerated and monitored juveniles and adults while protecting our communities; and,
- ✓ Promote a vibrant business environment to put California on the road to recovery and beyond.
- ✓ The budget must not be balanced on the backs of working families and the vulnerable

AFSCME members are dedicated to helping State leaders secure passage of revenue proposals planned for the June 2011 Special Election, but the California Legislature must restore the Wilson-era tax rates for the top one percent of Californians to restore $4 Billion worth of critical services.

Sin taxes: Cigarettes and alcohol (1 to 2 billion). Legislative and ballot proposals for cigarette taxes have proposed to raise $1 billion, while alcohol taxes have been proposed in the range of $500 million to $1 billion.

Program cuts required by the Legislature must be strategic and based on legally permissible policies. The budget must not be balanced on the backs of the poor; rather, <u>all</u> Californians must feel the pain.

Realigned programs must include sufficient funding to cover the full range of services currently provided by the state to assure positive outcomes.

Stop the duplication of services that permit recipients to double dip on benefits. (Supportive services)

Cal works

The reduction in grants and limitations on child care will impact negatively the opportunity for a person to reach the goal of freedom and achieve self-sufficiency in an era where the economy is not providing the work opportunities that are needed.

Foster Care, Adoptions and Child Welfare

The proposal does not allow for caseload growth as more children are entering the system. The most valuable and vulnerable will lose their safety net.

Realignment

Giving control to the county's to continue to provide the most needed services and not allow an increase in caseload growth will bring on economic devastation to the already most needed community and an unavailability of services that will no longer be provided because of lack of funds. The safety of the general population will be at risk.

AFSCME is fully prepare to work on the front line with cost savings ideas that will generate the most needed revenue to save our great state of California. The attack on working families must stop

FAX COVER PAGE

7822 WALKER STREET, LA PALMA, CALIFORNIA 90623
TELEPHONE: (714) 690-3340 FAX: (714) 523-2141

To: Senate Governance and Finance Committee Members

RE: *Restructuring Redevelopment: Reviewing the Governor's Budget Proposal*

Date: February 9, 2011

Number of Pages: __4___ (Including fax cover page.)

MESSAGE

Please see City of La Palma Community Development Commissions Resolution OPPOSING governor Browns Proposal to Abolish Redevelopment in California

If you did not receive this entire transmission, please call
Renée McKenzie at (714) 690-3340.

COPY OF THE ORIGINAL ON FILE IN THE OFFICE OF THE CITY CLERK OF THE CITY OF LA PALMA.

February 9, 2011
Date

City Clerk

RESOLUTION NO. CDC 2011-05

A RESOLUTION OF THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF LA PALMA IN OPPOSITION TO THE GOVERNOR'S PROPOSAL TO ABOLISH REDEVELOPMENT AGENCIES IN CALIFORNIA

WHEREAS, as part of his 2011-12 budget proposal, Governor Brown has proposed permanently abolishing California's 397 local redevelopment agencies; and

WHEREAS, this proposal represents another State raid of local government funds to balance the State budget, a raid that voters have repeatedly sought to end, most recently in November 2010, when an overwhelming 61% of voters elected to stop State raids of local government funds, including redevelopment funds; and

WHEREAS, this proposal will bring little financial relief to the State's budget dilemma-- according to the State Controller's Office, redevelopment agencies have more than $87 billion in bond and other contractual obligations that legally must be repaid before revenues are available for any other purpose - in fact, according to the State Department of Finance's own budget documents, there will be zero State savings in out years from shutting down redevelopment; and

WHEREAS, this proposal will result in unintended consequences impairing local economic development activity throughout California; and

WHEREAS, throughout California, redevelopment activities support 304,000 jobs annually, including 170,600 construction jobs, contribute over $40 billion annually to California's economy in the generation of goods and services, and generate more than $2 billion in state and local taxes in a typical year; and

WHEREAS, eliminating redevelopment will take away one of the few tools local governments have to comply with State requirements to plan for more compact urban development supported by transit-oriented development, housing, jobs and infrastructure; and

WHEREAS, eliminating redevelopment will severely limit the development of affordable housing in California; and,

WHEREAS, redevelopment agencies are the second largest funder of affordable housing, behind only the federal government; and

WHEREAS, shutting down redevelopment agencies is a violation of multiple State and Federal constitutional provisions.

NOW, THEREFORE, THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF LA PALMA DOES HEREBY RESOLVE TO:

SECTION 1. Formally oppose Governor Brown's proposal to abolish redevelopment in California.

SECTION 2. Direct CDC Secratary to communicate its opposition to this proposal to the Governor, the Legislature, business groups, and citizens.

APPROVED and ADOPTED this 1st day of February, 2011.

Ralph D. Rodriguez

Ralph Rodriguez, Chairperson

ATTEST:

Laurie A. Murray

Laurie A. Murray, CMC
Secretary

STATE OF CALIFORNIA)
COUNTY OF ORANGE) ss.
CITY OF LA PALMA)

I, Laurie A. Murray, Secretary of the Community Development Commission of the City of La Palma, California, do hereby certify that the foregoing Resolution was duly adopted by the Community Development Commission of the City of La Palma at a regular meeting held on the 1st day of February, 2011, by the following vote:

AYES:	Charoen, Hwangbo, Rodriguez, Shanahan, and Waldman
NOES:	None
ABSENT:	None
ABSTAINED:	None

Laurie A. Murray

Laurie A. Murray, CMC
Secretary

Detwiler, Peter

From: Robert C Leif <rleif@rleif.com>
Sent: Tuesday, February 08, 2011 7:31 PM
To: Detwiler, Peter
Subject: Redevelopment

Importance: High

Dear Mr. Detwiler,
Unfortunately, I cannot be in Sacramento tomorrow. This meeting has two major problems: The list of nongovernmental speakers appears to greatly favor the redevelopment authorities. I also have found that the initial emails that I made to the members of the committee using the Senate's email based system were returned because the system was programmed only to accept messages from the Senators constituents. When the Senators act as a committee they are supposed to serve all of California's citizens, not just their constituents. Please distribute this email to them with my apologies of being unable to appear in person in Sacramento.

Dear Members of the California Senate Governance and Finance Committee,
I urge support of the Governor's proposal to replace the redevelopment agencies. The present redevelopment system encourages corrupt practices, taints the reputation of our lawmakers and deters private investment.

One of my family's properties was transferred by National City to another private party. We are now litigating a blight declaration that will permit the proposed transfer of second property in National City to a tribe of casino owning Native Americans. The tribe promised that they would not have gambling while it was illegal.

A finding of blight puts a sufficient cloud on the title of a property to deter an investor from purchasing or improving a property. This decrease in investment can be a self-fulfilling prophecy that causes blight. Blight designations ultimately result in decreased valuations and consequently property and other tax revenue. For instance, my family did not look at some properties that were near our past home because they were in a "blighted" area, Grantville. Litigation on this blight claim by the County was settled by an ingenious money laundering transfer between the City, Centre City Development Corp. (CCDC) and County. The City promised a significant part of the Grantville tax increment to the CCDC, which in turn promised that money for a County construction project.

While the redevelopment agencies are squandering our money by giveaways to private parties, many of California's cities are in financial trouble and some will go bankrupt. The redevelopment tax increment law is greatly flawed. The percentage of the total tax in the tax increment can significantly increase because of inflation and other actions that have nothing to do with the actions of a redevelopment agency. This diversion of tax money reduces the amount available for education from preschool to doctoral programs. Tuition increases at our universities and necessity for admitting increased higher tuition paying out of state students will deny a first-class education and associated social mobility to California's children.
Yours respectfully,
Robert C. Leif, Ph.D.
3345 Hopi Place
San Diego, CA 92117
Email: rleif@rleif.com
Tel. 619.582-0437

The Mother Lode Tea Party
P.O. Box 683
Plymouth, CA 95669

California State Legislators
c/o State Capitol,
Sacramento, CA 95814

February 7, 2011

Dear Legislators,

We request your support to shut down the state's redevelopment agencies. The redevelopment system has been used in California for over 50 years now and has left local Californian's with debts close to $100 Billion Dollars that are paid back by the local property taxes. None of this debt was voted on by the taxpayers who have made the Wall Street salesman very wealthy. (Please refer to the newest State Controller's Annual Financial Report for Redevelopment Agencies.) This report contains the information you need to make an honest determination regarding our request.

Redevelopment has failed to lower taxes as was promised by them in 1951 when property tax increment was approved by the voters to improve slum blighted areas. Fees, assessments and taxes were raised due to the lost property taxes diverted to redevelopment agencies. Sacramento's City/County's redevelopment is a prime example of the failure to cure blighted areas. It has been in business for over 50 years and they have spent well over a billion dollars to improve the downtown redevelopment project area and are still saying that they need to spend more redevelopment dollars to cure the existing blight on "K" Street Mall.. They have an existing debt of close to $186 million left to pay for and they don't seem to understand that their senior citizens on fixed incomes are broke and can no longer finance "pie in the sky" schemes like the Rail Yard & Sports Arena Projects. Neither should California's children and grandchildren be forced to pay for this failed redevelopment system for another 40 to 50 years.

Redevelopment agencies claim that they are a success but we contend that true success is when they have paid all their debts and bills and returned the local property taxes back to their local government agencies in order to fund the public services provided by cities, counties, special districts, and schools. Not one agency has voluntarily done this in over 50 years. The State Controller's evidence proves that it is pure fallacy that redevelopment has been proven successful in California and has cured blight. Most agencies are in serious trouble, spending more tax monies than they are taking in. This deficit spending and issuing more & more debt to cover their costs needs to stop!

Somehow redevelopment has turned into a private banking and "TARP" system for large corporate interests which have hurt small businesses. The <u>public</u> subsidies for some redevelopment <u>private</u> projects in Sacramento are: Hyatt Hotel $13 million allowing the city to get out of its 1986 promise to subsidize the hotel for $1.5 million a year for 75 years; Sheraton Grand Hotel $96 million; "K" Street entertainment trio $5.7 million; Esquire Plaza/Imax $6 million. Indian Wells redevelopment voted $10 million to build a private golf course. The list can go on & on. (See Attachment)

Private enterprise should remain private and get their hands out of our public treasuries. Please take the corporate interests off the redevelopment welfare system and return our state to "fiscal sanity". The redevelopment process in California has become a Grimm Fairy Tale.

Please shut down the redevelopment agencies and return the property taxes back to the legitimate local governments.

Sincerely,

Sherry Curtis (209) 295 - 6404
Mother Lode Tea Party Government Affairs Chairman

Jerry Brown Redevelopment Alert: Wealthy Eli Broad Gets $52 Million for a Garage; the Entirety of South L.A. Gets $32 Million

By LA Weekly
published: Thu., Jan. 27 2011 @ 6:35AM

By Tibby Rothman and Jill Stewart

Jerry Brown goes after Community Redevelopment Agencies. Do they have bigger guns?

In a move that California Gov. Jerry Brown might see as L.A.'s "let them eat cake" moment, the city's Community Redevelopment Agency has set aside $5.5 million in public help for Watts -- yet earmarked $52 million for a garage for Eli Broad's museum.

Broad's proposed museum in the L.A. Civic Center, which will house his foundation's art collection and Broad Foundation offices, will get a parking garage, fancy plaza and glitzy sidewalks, all financed with Community Redevelopment Agency (CRA) funds. No word from L.A. redevelopment czar Christine Essel or Mayor Antonio Villaraigosa on how this would fight neglect, poverty and blight.

But check out how little they spend on actual blight and poverty in L.A.:

Los Angeles city officials released a list of their 275 supposedly must-have "redevelopment" projects, which can be downloaded here.

The list shows:

- All of South Los Angeles, population 550,000, where unemployment among young minorities is said to exceed 30 percent, would get just $32 million from the CRA -- $20 million less than Broad would get for his garage.

- More than $1 in every $10 of the nearly $1 billion in "redevelopment" money controlled by Los Angeles is to be spent in pursuit of Eli Broad's dream of glitzing up the Civic Center's Grand Avenue area (which is neither poor or blighted) with luxury condos, a luxury hotel, and his architecturally stunning museum.

- Watts, devastated by the recession, would get only $5.5 million from the CRA, compared to $102 million for the Grand Avenue luxury project and Broad's museum.

Kinda takes the "community" out of Community Redevelopment Agency, doesn't it?

Jerry Brown's state budget plan would close down all CRAs statewide, using the $5 billion they control for essential local government services.

In L.A., which sits on nearly $1 billion of that, Brown is expected to earmark much of it to buttress badly slashed Los Angeles County health care and welfare help for the poor and working poor. Essel and Villaraigosa insist the money is far better spent on private development. The city's CRA board has asked the City Council to squirrel away the nearly $1 billion -- the figure is actually $930 million -- in a "non-profit" so Brown can't get his hands on it. What if Gov. Brown does get the money? In the State of California's hands, Eli Broad's $52

Damage Caused by CRA's Outweighs Benefits

Michael Sinkov

(Editor's note: This column was originally a letter written by attorney Sinkov to California Senator Curran Price and Assemblymember Gil Cedillo.)

I am writing to urge your support for Governor Brown's proposal to eliminate California's redevelopment agencies.

The damage which the redevelopment process causes in cities and counties throughout California greatly outweighs any benefits derived from the process. In the vast majority of cases, the enormous resources at the disposal of redevelopment agencies are devoted to subsidizing large, wealthy and politically well-connected businesses, landowners, developers and investors at the expense of an existing community of residents, small businesses and local resources.

The redevelopment process unites the political interests of local officeholders and well-heeled development interests who have invested campaign contributions to gain the allegiance of public officials.

United with the enormous resources wielded by redevelopment agencies (including a flow of property tax receipts and the power of eminent domain), the developer, city council member and redevelopment agency unite in an "iron triangle" which, in its sphere of influence, is every bit as powerful as the military-industrial complex working in concert with the Pentagon and members of Congress.

Redevelopment is bad for communities. The redevelopment process uproots and undermines existing communities which are unlucky enough to be located in redevelopment projects.

The redevelopment agencies, acting at the behest of their wealthy developer allies, use their resources and eminent domain powers to remove existing housing (which tend to be affordable) and small businesses.

There is a strong tendency toward politicizing local private agencies and organizations in redevelopment areas as a consequence of CRA's buying political support from voluntary organizations through distributing their financial largesse. Often, communities are divided into pro- and anti-redevelopment camps.

Redevelopment is bad for the planning process. Redevelopment agencies receive a portion of any year-over-year increases in property tax revenues collected from within redevelopment project areas.

This results in a strong bias toward supporting large, expensive development activity, because such developments generate more property tax revenue than less expensive developments. The redevelopment process naturally tends to promote taller buildings, commercial development over residential, and "high-end" projects which don't necessarily benefit the local community or area.

Larger developments often require assembly of large land parcels, for which the CRA's eminent domain powers are tailor-made. This results in elimination of smaller landowners, small business and affordable housing resources. Redevelopment is the antithesis of sound planning process; because their bias is for large, expensive development for which an influential developer is lobbying, the existing land-use plan and/or zoning is often swept aside to accommodate the redevelopment agency's allies.

Redevelopment is bad economics and bad politics. The devotion of significant public resources to subsidize and promote private development (corporate welfare) is at the expense of the broader public interest. It distracts the energies of city council members and public employees from focusing on the greater public interests. It distorts markets by forcing private businesses to compete with publicly-subsidized businesses.

How would you like to own a hotel in a city in which your competitor has received millions of dollars in public funds from a redevelopment agency? And it redirects tax revenue from schools, public safety agencies and general funds to the subsidy of wealthy and well-connected development interests.

There is no evidence that redevelopment generates any economic benefit. There has never been any study to demonstrate whether or not redevelopment succeeds in creating jobs, lowering rents or any other PUBLIC benefit.

It is irresponsible to continue to allow enormous public resources to be devoted to this detrimental process without some demonstrable showing that it accomplishes anything significant. Should such a study exist, a careful analysis would have to be undertaken to determine whether the demonstrated benefits outweigh the damage which results from redevelopment.

Redevelopment does not eliminate blight. A required finding that an area is "blighted" is a legal requirement for establishing a redevelopment project area. However, the legal definition of blight is so elastic and vague that such a finding could be adopted for almost any urbanized area in the state.

In Los Angeles, the CRA spent $750 million and thirty years in downtown LA, after which it insisted in a court proceeding that the project area was still blighted and the agency required more time and more money to continue their efforts.

Redevelopment has not lived up to its mission. Redevelopment was adopted in California after World War II to address slum housing problems. Decades later, the legislature attempted to force the CRA's to provide housing by mandating that no less than 20% of redevelopment revenue be devoted to creating affordable housing. To no one's surprise, a recent investigative article in the LA Times disclosed that this requirement has been widely and blatantly ignored.

If ever there was a time when Californians could afford to devote substantial local economic and political resources to subsidizing expensive, commercial development at the expense of schools and local communities, that time is not now. Please support the effort to eliminate California redevelopment agencies.

(Michael Sinkov is an attorney in private practice in the Wilshire Center area and a member of the MacArthur Park Neighborhood Council planning and land-use committee. He has assisted and represented an array of grass-roots and neighborhood organizations in development battles throughout LA and was the primary author of the trial brief in the Hillside Federation lawsuit which successfully challenged Riordan's General Plan adoption. He can be reached at
) -cw

CityWatch
Vol 9 Issue 8
Pub: Jan 28, 2011

Close Window

<u>ORAL</u> Statement by Redevelopment Director Dr. Kofi Sefa-Boakye

Re: Statement for Assembly Budget Subcommittee No. 4 – Enterprise Zone and Redevelopment Agency in Compton

February 7, 2010

Thank you Chair Buchanan and members of the Assembly Budget Subcommittee. I am grateful to be able to testify before you today. As was previously stated, my name is Dr. Kofi Sefa-Boakye and I serve as the Redevelopment Director for the City of Compton. The Governor's Plan would have devastating impacts on the City of Compton's efforts to revive its economy. Compton's Community Redevelopment Agency adopted a Redevelopment Plan in 1971 to alleviate blight and carry out the necessary physical infrastructure improvements in the community to spur commercial and retail as well as industrial and residential developments while generating jobs for local residents.

The Redevelopment Agency is the economic engine through which the City implements development policies that eliminate slums and blight, promotes jobs, expands the City's tax base and reverses decades of economic decline. The unique powers of the redevelopment process are a major factor in our ability to undertake the development strategies necessary to effectively compete with our affluent neighbors in the economic battlefield for retail, commercial and residential developments.

At the same time, Compton is also combating the current national economic recession which is having a devastating effect on heavily low-income and minority communities, including the City of Compton.

The elimination of the Compton Redevelopment Agency is estimated to result in 1,867 future job losses. This would equate to 2% of Compton's population which is the 3rd highest percentage of projected job loss among cities in Los Angeles County with a population over 90,000 according to a California Redevelopment Association report.

Over the past four years, the Compton Redevelopment Agency has expended approximately $16 million on affordable housing related programs. In addition, the Agency has built over 260 units of affordable housing within the last 3 years. Furthermore, the Agency has programmed the construction of an additional 300 affordable housing units over the next few years in accordance with its Five Year Implementation Plan.

The Governor's proposal suggests that private investment and economic development would occur in any community without redevelopment, and that redevelopment only displaces new investment into other areas of a community. This argument lacks empirical validity. The Agency's ability to purchase land at a market rate and sell it to a private developer at below market price, provides the City with a greater competitive advantage over other communities. It gives us a chance to compete with other communities for business that generates new jobs with good wages in a community where the unemployment rate is already at a crisis stage.

In conclusion, the City of Compton's Redevelopment Agency and Enterprise Zone are effective, efficient and pragmatic tools for economic development. The outcomes of the City's redevelopment activities have contributed greatly to our General Fund through business license, plan check and building fees, an additional $1 million in annual sales tax revenue, and an increase of 6.12% property tax value within Compton's Redevelopment Project Area from Fiscal Year 2001-02 to Fiscal Year 2009-10. Moreover, the City's redevelopment activities have helped to stabilize the City's job and housing markets after years of economic decline, via the creation of hundreds of new jobs and the production of hundreds of affordable housing units. Therefore, local redevelopment efforts have a proven track record for stimulating economic growth in our City. Consequently, the City of Compton is strongly opposed to the elimination of our local Redevelopment Agency and Enterprise Zone which are crucial to our City's ongoing economic survival and vitality.

Thank you Chair Buchanan and members of the Assembly Budget Subcommittee for the privilege of testifying before you today.

<u>ORAL</u> Statement by Assistant City Manager David Hewitt Accompanied by Redevelopment Director Dr. Kofi Sefa-Boakye

Re: Statement for Assembly Budget Subcommittee No. 4 – Enterprise Zone and Redevelopment Agency in Compton

February 7, 2010

Thank you Chairman and members of the Subcommittee for the opportunity to testify here today. My name is David Hewitt, and I am the Assistant City Manager of the City of Compton, California.

The combination of our Redevelopment Agency and the Enterprise Zone that we have had for the last four years, has worked just as the laws that created them intended. Let me tell you about Compton and what has been happening there.

My City has a population of 100,000 persons who live in an area encompassing 10.2 square miles in the heart of Los Angeles County. The City of Compton, also known as the Hub City, is surrounded by five major freeways and is located within 10 miles of three major ports of entry (LAX, Ports of Long Beach and Los Angeles). In addition, through the City's high-threat, high-density urban area runs the federally funded Alameda Corridor rail project, a 20-mile-long rail cargo expressway linking the ports of Long Beach and Los Angeles to the transcontinental rail network near

Downtown Los Angeles. In addition, SR-47, the main non-freeway truck access to the Ports of Los Angeles and Long Beach also runs parallel to the Corridor through the middle of my City. The importance of the Alameda Corridor to the national and regional economies is significant. A study conducted by the Alameda Corridor Transportation Authority noted that in 2005, the two ports generated $256 billion in trade value and affected 3.3 million jobs across the country. Yet, in spite of this economic machine bisecting our city, we currently have an unemployment rate hovering above 20% and an inordinant population of chronically unemployed including over 1,000 parolees. This is noteworthy because I am not aware of many cities whose population includes 1% parolees.

In 2007, our City was awarded an Enterprise Zone designation. Since then, the trajectory of our economic growth has changed; the Enterprise Zone has created 489 jobs and over $120,000 in fee revenue for the City of Compton. Those numbers would equate to about 5,868 jobs in a city with a population of 1.2 million like San Diego or 17,115 jobs in a city of over 3.5 million like Los Angeles. Accordingly, Compton's Enterprise Zone has already made a tremendous difference in our local economy by starting to reverse our negative job loss trend. We are just beginning to utilize the benefits of this program and again the Legislature is considering eliminating this program. In the 2008-09 Budget Bill analysis provided by the Legislative Analyst, a conclusion is provided supporting the recommendation of the elimination of Enterprise Zones which states, "It is not clear what additional benefits will be gained by extending the same incentives that have already been in place for as many as 20 years. Rather, other redevelopment policy tools could be more effective than extended use of EZ tax incentives." We are deeply concerned that the Legislature is not only reconsidering wholesale elimination of the Enterprise Zones but also eliminating the Redevelopment Agencies which are policies previously considered to be viable alternatives. Further, in the 2003 Legislative Analyst's report entitled An Overview of California's Enterprise Zone Hiring Credit, several key findings applicable to my City cannot be ignored. First the report notes, "Consequently, from a policymaker's perspective, EZ incentives tend to be most effective in assisting distressed areas when narrowly focused on small geographic areas." Further, the conclusions note "…although localized benefits could occur – EZ incentives are unlikely to result in significant net positive economic impacts absent additional targeted public investment." Our City has recently authorized the sale of over $120 million in redevelopment bonds to create targeted public investments.

We ask you to consider the Governor's proposals with both long-term and short-term economic impacts in mind to both the state and local governments. Along those lines, if this proposal continues to be considered, we ask that a compromise be worked out so that cities such as Compton are not cut off at the knees and that some of the gains, such as the $1 million increase to our sales tax base resulting from our redevelopment activities are allowed to continue to be effective in providing badly needed local revenues.

Dr. Kofi Sefa-Boakye, our Director of Redevelopment will provide more insights into our targeted developments and the potential funding issues created by the Governor's proposed budget cuts.

Thank you for the opportunity to testify here today. Your attention and assistance are appreciated.

CALIFORNIA ALLIANCE TO PROTECT PRIVATE PROPERTY RIGHTS

February 3, 2011

RE: A Call for Redevelopment Reform

VIA FACSIMILE
Fax: 916.322.0298

Senate Governance & Finance Committee

Dear State Legislators,

Americans are very concerned with the U.S. Supreme Court's Kelo vs. New London decision granting local government greater authority and ease by which they can seize homes, small businesses and places of worship from unwilling sellers -- and rightly so. In only a few short years since this fateful decision, eminent domain abuse is on the rise, and so are calls for greater scrutiny of redevelopment agencies who exercise this awesome power.

Traditionally, eminent domain was used sparingly and only for government purposes like roads, parks and government buildings. However, when used to benefit private development, eminent domain abuse fosters distrust with the public and sends a terrible message that if buyers don't care for prices offered on the open market, they can use their influence with City Hall to acquire property on the cheap. Eminent domain uproots friends and neighbors, and threatens the livelihoods of small business owners who can't afford the risk of starting all over again in unfamiliar neighborhoods, particularly in this economy.

Under the current system, politically connected developers profit at the expense of small merchants and ethnic minorities, and at the expense of taxpaying citizens, with no real evidence that redevelopment projects provide a net economic benefit. Corporate welfare was not the intended purpose of redevelopment or eminent domain. It must end as we know it today.

As you are well aware, the California State Controller is investigating redevelopment agencies throughout California for potential improprieties, including eminent domain abuse and misuse of taxpayer dollars. We applaud such scrutiny of government agencies that are not accountable to voters, nor are their activities always so transparent to the people of California.

We hope that your hearings result in real redevelopment reform or the outright abolition of redevelopment agencies as we know them today. Redevelopment strategies should exemplify innovation and compassion, and not the blunt instrument of eminent domain. City leaders who serve on redevelopment agencies could restore trust with the community by passing an ordinance that prohibits the taking of private property for the benefit of private developers and revising ill

2795 E. Bidwell St. #100-119 • Folsom, CA 95630 • Phone (916) 552-0335 • Fax (916) 817-2444
www.calpropertyrights.com

defined descriptions of blight that are so broad that virtually any property can fall victim to eminent domain abuse. But few have responded to this call.

There is no better evidence that blight designations are far too broad than the fact that a whole 30% of urban California has been deemed blighted! Visit our website for numerous examples of abuse, including a business hotel being deemed blighted to make way for a shopping mall, and many more merchants who support families and jobs.

The State Legislature can do what local government has failed to do -- protect property owners and taxpayers. But so far, the State Legislature has proven to be a greater ally to redevelopment agencies then the people they serve. Organizations representing redevelopment agencies and municipalities who are fighting hard to protect the status quo is no doubt placing considerable political pressure on you to ignore pleas from those who do not have wealth or do not have a lobbyist fighting their fight.

While the desire to improve a community's quality of life is laudable, urban renewal occurs throughout the State without infringing on private property rights. I would also encourage you to visit our website www.CalPropertyRights.com to read how the City of Anaheim redeveloped their community without the threat of eminent domain. In addition, two other reports on the homepage make a strong case for redevelopment reform and ending eminent domain abuse.

Embracing this direction and new beginning would restore the public's trust in its political leaders. We hope you will seriously consider our request and point of view, for these are certainly extraordinary times for those fighting to protect their private property in California.

Sincerely,

Marko Mlikotin
President

CC: Governor Jerry Brown

Marin Healthcare District

Peter,

I know you've been waiting in breathless anticipation for this, and here it is. I also gave a copy to Toby.

Jim Randlett

February 1, 2011

The Honorable Jerry Brown
Governor, State of California
State Capitol
Sacramento, CA 95814

Delivery via U.S. P. S. and facsimile to (916) 558-3160

Subject: 55% Vote to Re-Build District Hospitals To Seismic Standards

Dear Governor Brown:

The Marin Healthcare District respectfully requests that your budget package – relative to local government development and infrastructure – include the re-building of hospitals owned by healthcare districts to new seismic safety standards.

We understand that your budget package will include provisions giving greater latitude to local governments to undertake development and infrastructure projects, and that one of these provisions may be lowering the vote threshold of bonds to 55%. We sincerely hope that this provision will also apply to bonds issued by healthcare districts for re-building our hospitals.

The addition of healthcare districts will result in greater public support, as the voting public has demonstrated strong support for their hospitals, their ERs, and their trauma centers. In Marin, our hospital provides the emergency, trauma, and other critical care services that the public finds so valuable, and our hospital must be re-built to seismic safety standards in order to continue to provide these life saving services.

Thank you for your consideration of our position. We would be pleased to meet with you or your staff at your convenience.

Very truly yours,

Lee Domanico
CEO

c: Darrell Steinberg, President Pro Tem, California State Senate
John Perez, Speaker, California State Assembly
Senator Mark Leno
Assembly Member Jared Huffman
Ana J. Matosantos, Director, Department of Finance
Diane Cummins, Department of Finance
James E. Randlett, Legislative Advocate, Marin Healthcare District
Tim Madden, Legislative Advocate, Marin Healthcare District

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