

REDEVELOPMENT

Redevelopment began in 1945 as a post-war blight removal program that used federal urban-renewal grants to clean up blighted urban areas. These first projects were few in number: 27 projects in 1966. Project size was also limited; prior to 1957, most project areas ranged from 10 to 100 acres.

Today, however, due to the use of tax-increment financing authorized by the voters in 1952 and fiscal restrictions imposed upon local governments by Proposition 13, redevelopment has emerged as a key local financing tool. Redevelopment has grown so tremendously that now there is scarcely a jurisdiction that does not have an agency. By 2002, there were a total of 413 redevelopment agencies in California -- in 382 cities, 27 counties, and four joint city-county agencies -- and a total of 764 project areas. Many project areas encompass thousands of acres.

Redevelopment offers several unique powers to local officials. First, under redevelopment, jurisdictions can issue bonds without a vote of the people; and second, they can use eminent domain authority to take private property for other private development uses.

Redevelopment agencies accumulate their funds by freezing the property tax base within a project area that has been designated as "blighted." With the property tax base frozen, all the affected taxing entities that receive property tax -- schools, fire departments, police departments, special districts -- continue to receive the same share of property tax that they received in the year when the redevelopment plan took effect. For instance, if a school was receiving \$100,000 in property tax in 1990, it continues to receive that amount from the project area throughout the life of the redevelopment plan. Any additional property tax generated above the base year goes to the redevelopment agency. But the agency must share a percentage of this money with the affected taxing entities. A statutory formula requires certain percentages of funds to be passed through to the affected taxing entities. The specific percentages increase through the term of the redevelopment project.

A central interest the state has with redevelopment is its significant fiscal impact on the General Fund. These state costs are the result of the state guaranteeing minimum levels of school funding. Schools currently receive approximately 50% of local property tax dollars. When a redevelopment project area is declared and the property tax base within that area is "frozen," a large portion of the increase in the property tax increment generated within the project area flows to the redevelopment agency. Schools -- unlike all the other affected taxing entities that receive property tax within a project area -- are then reimbursed by the state for any amounts that they lose to redevelopment.

These high state costs, the lack of clear public scrutiny, proliferation of agencies, and large project areas make redevelopment controversial. Once agencies are started, they gather momentum and are rarely if ever stopped.

City officials and developers tout redevelopment's benefits and advantages to revive down-trodden urban areas; tax watch-dog groups and adversely-affected business owners view redevelopment agencies as administrative behemoths that gobble up scarce tax dollars and engage in grand-scale development deals of dubious value. The suspicious see redevelopment agencies as engaging in games of fiscal sleights of hand with its true powers only understood by attorneys, consultants, and staff.

In many cases, redevelopment powers have been used prudently and have produced good results. Examples are numerous where a run-down urban area is "redeveloped" and brought back to life again. In other more-controversial cases, these powers have been used to "develop" as opposed to redevelop. This happens when large areas of vacant land are deemed "blighted," and redevelopment agencies issue bonds without a public vote. These funds are then used to build infrastructure to attract development or to engage in bidding wars with surrounding communities to attract auto malls and "big-box" retailers and other sales-tax generators.

The Legislature has sought to limit redevelopment abuses by passing laws, such as AB 1290 (Isenberg) Chapter 942, Statutes of 1993, to attempt to keep redevelopment focused on removing true urban blight.

Redevelopment Reform: AB 1290

The early 1990's were difficult times for redevelopment agencies. Many members of the Legislature were openly criticizing agencies for adopting large project areas with questionable evidence of blight, engaging in bidding wars with other jurisdictions for new commercial developments, and hoarding millions of dollars in unspent housing set aside funds. The cry for reform was in the air. With little sympathy for the pleas of the defenders of redevelopment, the Legislature raided these perceived "cash cows" to help balance the state's budget deficit for two years in a row. In response to this negative environment, the California Redevelopment Association sponsored AB 1290 (Isenberg) Chapter 942, Statutes of 1993, which proposed numerous reforms to the existing redevelopment process. The bill focused on issues that had historically caused concerns among redevelopment critics, including the definition of "blight," the length of time a redevelopment plan stayed in effect, and mitigation agreements.

In brief, AB 1290:

- Altered the definition of "blight" by both modifying the specific definitions and dividing the conditions into two separate categories: physical and economic.
- Specified term limits for new and previously adopted project areas, i.e., the term of the redevelopment plan, the term of the available flow of tax increment moneys, and the term of the agency's redevelopment powers.
- Increased and modified penalties for the failure to expend tax increment moneys in an agency's Low and Moderate Income Housing Fund.
- Authorized the development of affordable housing units outside the project area to count toward an agency's inclusionary requirements. Under the provisions of the bill, an agency must produce two units outside the project area for every one unit owed.
- Prohibited the dedication of sales tax to an agency by its legislative body.
- Authorized the financing of facilities or capital equipment made in conjunction with the development or rehabilitation of property used for industrial or manufacturing purposes.
- Deleted provisions relating to negotiated mitigation agreements and, instead, provided for a guaranteed statutory pass-through beginning in the first year of a project area for all affected taxing entities.

Major legislation

AB 2805 (Ridley Thomas) Chapter 954, Statutes of 2004:

- Allows the City of Los Angeles to extend the life of the Hoover Redevelopment Project Area plan for 12 years for the purpose of rehabilitating the Los Angeles Memorial Coliseum for occupancy by a National Football League franchise.
- Allows the city to continue to collect property tax increment for an additional 12 years without making a finding of blight.

Other legislation

AB 269 (Mullin) Chapter 869, Statutes of 2004:

- Allows any redevelopment agency within San Mateo County to participate in a joint powers authority for the purpose of pooling low- and moderate-income housing funds for affordable housing.
- Provides that no new joint powers authority may be created nor additional funds received by an existing joint powers authority after January 1, 2009.
- Sunsets on January 1, 2010.

AB 494 (Garcia) Died in the Assembly Committee on Housing and Community Development:

- Would have prohibited the transfer of local redevelopment housing funds if the local housing element were not certified by the Department of Housing and Community Development.

AB 1058 (Lieber) Died in the Assembly Committee on Housing and Community Development:

- Would have exempted from any transfers of tax increment revenue any redevelopment agency that incorporated "community benefit standards" into a redevelopment project.

AB 1171 (Diaz) Died in the Assembly Committee on Housing and Community Development:

- Would have allowed any redevelopment agency within the County of Santa Clara to transfer its low and moderate income housing funds to another redevelopment agency for affordable housing used within a five mile radius outside its redevelopment area until January 1, 2008.

AB 1358 (Simitian) Died in the Senate Committee on Housing and Community Development:

- Would have allowed a redevelopment agency in a city of less than 100,000 in San Mateo, Santa Clara, or Santa Cruz counties to expend Low- and Moderate-Income Housing Fund money outside the redevelopment project area, but within five miles of the exterior boundary of the project area as long as the construction commenced prior to January 1, 2009 and that the project was located within the same county.

AB 1626 (Runner) Died in the Assembly Committee on Housing and Community Development:

- Would have allowed a redevelopment agency to use low and moderate income housing funds for other economic development purposes.

AB 2212 (Runner) Died in the Senate Committee on Local Government:

- Would have allowed the County of San Bernardino to form an infrastructure financing district (IFD) in a specified location for the purposes of funding the construction of and purchasing land for projects for the development of the Harper Dry Lake area.
- Would have allowed the Harper Dry Lake IFD to exist for up to 30 years.

SB 109 (Torlakson) Chapter 318, Statutes of 2003:

- Changes procedures for enforcing redevelopment agencies' reporting requirements.
- Expands the list of redevelopment agencies' "major audit violations."

SB 526 (Torlakson) Chapter 149, Statutes of 2004:

- Applies certain existing law requirements relating to referenda of redevelopment plans that either provide for tax increment financing or expansion of project areas, to all redevelopment referenda.

SB 965 (Aanestad) Chapter 198, Statutes of 2003, an urgency statute to take effect immediately:

- Allows the City of Redding, the County of Shasta and other cities located in the county to borrow up to \$2.3 million from their Low- and Moderate-Income Housing Fund to purchase property for the location of a veterans' home.

SB 1382 (Murray) Chapter 158, Statutes of 2004:

- Specifies when a redevelopment plan preliminary report shall be sent to the other taxing entities.

SB 1489 (Ducheny) Died in the Assembly Committee on Housing and Community Development:

- Would have required a redevelopment agency to notify its legislative body of an audit or investigation conducted by the State Department of Housing and Community Development when redevelopment officials presented annual reports to their legislative bodies.