

Assembly Committee on Housing and Community Development and
Senate Committee on Transportation and Housing

February 15, 2011

Redevelopment and Affordable Housing Finance
Background Paper

INTRODUCTION

The Governor's 2011-12 budget proposes to dissolve redevelopment agencies by July 1, 2011. Local successor agencies would assume redevelopment agencies' obligations and assets and continue to receive sufficient property taxes to pay their bonds and other indebtedness. When this background paper was drafted, the Administration had yet to provide any bill language describing the proposal.

According to the Legislative Analyst's Office, redevelopment agencies collect approximately 12% of statewide property tax revenues. This amount has increased significantly over the years. In 1983-84, redevelopment agencies were collecting approximately 4% of property taxes.

In addition to community and economic development, redevelopment supports the production of affordable housing. Redevelopment agencies are required to set aside 20% of the tax increment they collect in a project area in a Low and Moderate Income Housing Fund to increase, improve, and preserve the community's supply of affordable housing for persons and families of low and moderate income (Health & Safety Code §33334.2). The Governor's proposal preserves what redevelopment agencies currently have set aside for affordable housing production by transferring the amounts in their Low-and-Moderate Income Housing Funds to a successor agency, most likely the public housing authority.

Statewide, Low and Moderate Income Housing Fund dollars represent a significant source of funding for the construction, preservation, and rehabilitation of affordable housing. These funds are often used in combination with private financing, state housing bond funds, state and federal low-income housing tax credits, and local matching dollars to support affordable housing construction. According to financial reports that redevelopment agencies make to the Department of Housing and Community Development (HCD), in fiscal year 2008-09 redevelopment agencies reported having in excess of \$1 billion in their Low and Moderate Income Housing Funds.

Some have criticized redevelopment agencies over the years for not using their Low and Moderate Income Housing Funds in an expeditious manner or in a manner consistent with the spirit of redevelopment law. For example, some have noted that redevelopment agencies have in some instances spent their Low and Moderate Income Housing Funds disproportionately on planning and administrative costs or for purposes unrelated to creating, preserving, or rehabilitating affordable housing in and around the redevelopment project area.

This Hearing:

The purpose of this hearing is two-fold. The first purpose is to consider what role the Low and Moderate Income Housing Funds play in financing affordable housing production, how the Governor's proposal to eliminate redevelopment agencies may affect overall production statewide, and what alternative funding sources or opportunities for affordable housing production may exist in the absence of redevelopment. The second purpose is to learn how Low and Moderate Income Housing Funds are being used or misused by redevelopment agencies under the current model and, in the event that redevelopment continues to exist, what options there are to improve the stewardship of those funds by redevelopment agencies going forward.

BACKGROUND

Enacted in 1945, the Community Redevelopment Law was intended to support reconstruction after World War II and eliminate blight. In 1952, the voters approved an amendment to the California Constitution giving local governments the authority to collect property tax increment as a source of funding for redevelopment.

Under redevelopment law, a local government forms a redevelopment agency and then identifies one or more project areas. To qualify as a project area, the area must include substantial blight that can only be eradicated through redevelopment activities. Once a project area is formed, the property tax base within the area is frozen and any increase in property taxes, known as the tax increment, goes to the redevelopment agency. Counties, cities, and schools continue to receive the property tax allocation they would have received prior to the year the project area was formed. That is, they continue to receive their historical portion of the frozen base.

Redevelopment agencies bond against future property tax increment to fund the economic development activities within a project area that will eradicate the blight. "Pass through" agreements allow schools, counties, and cities to receive a partial increase in their property tax allocation based on any increase in property tax collections. The state, however, must backfill school coffers for any property taxes diverted to the redevelopment agency.

Although the California Constitution gives local governments the authority to collect tax increment to eradicate blight, how redevelopment agencies can accomplish that goal is defined in state statute. The Legislature has amended and expanded the authority and scope of redevelopment agencies through statutory changes to the Community Redevelopment Law over the last fifty years.

Affordable Housing & Redevelopment:

The definition of "blight" within the Community Redevelopment Law has changed over time but has always included substandard housing (Health & Safety Code §§33031, 33035). In 1976, in an effort to avoid gentrification in redevelopment project areas and avoid the displacement of low- and moderate-income residents, the Legislature directed redevelopment agencies to set

aside 20% of the tax increment collected in a project area for the creation, preservation, and rehabilitation of affordable housing to be used predominately within the project area.

Redevelopment agencies have relatively broad powers in using their Low and Moderate Income Housing Funds as long as the funds are used to increase, improve, and preserve the supply of low- and moderate-income housing. Funds can be spent inside and outside a project area. However, to spend the funds outside a project area a redevelopment agency must make a finding as to why the housing will benefit the project area.

In an effort to ensure that redevelopment agencies spend their Low and Moderate Income Housing Funds and do not accumulate large surpluses, in 1988 the Legislature enacted the “excess surplus” statute. If a redevelopment agency has either more than \$1 million or more than four years’ worth of deposits to the fund, whichever is greater, unencumbered or unexpended, it is required to spend or encumber the funds or transfer the money to the housing authority within three years. If a redevelopment agency does not spend or encumber the funds, it is prohibited from obligating or spending any funds for any reason other than affordable housing.

Redevelopment agencies have an obligation to ensure that the housing units created or substantially rehabilitated remain affordable by enforcing affordability covenants ranging from 15 to 55 years. Redevelopment agencies are required to spend monies in their Low and Moderate Income Housing Funds for very low- and low-income households in at least the same proportion as those income groups are represented within the housing needs identified in their community’s housing element.

Sources of Funding for Affordable Housing:

Affordable housing finance relies upon multiple sources of funding. Low and Moderate Income Housing Funds are often important in the initial stages of a project to fund land acquisition, predevelopment costs, and infrastructure. Later, Low and Moderate Income Housing Funds often fill the gap remaining after all other public and private sources of financing have been tapped. These other sources include voter-approved housing bonds, state and federal low-income housing tax credits, private bank financing, and local matching dollars. Voters have approved two housing bonds in the last ten years, Proposition 46 of 2002 and Proposition 1C of 2006, which together provided \$4.95 billion for affordable housing production. These funds will likely be fully awarded in the next two years.

Questions for members to consider:

1. Should there continue to be some local source of funding to meet the housing needs of very low-, low-, and moderate-income individuals and families?
2. If so, are there alternatives to redevelopment that could preserve local funding for affordable housing on a going forward basis?

3. Is there a need to preserve the functions that redevelopment agencies play in ensuring that affordable housing funded by Low-and-Moderate Income Housing Funds remains affordable over the long-term?
4. If current housing set aside balances are transferred to a successor agency, should that agency be the city or county or the local housing authority?
5. If redevelopment or some source of local housing funding continues to exist, should the legislature reform laws to ensure that local governments are spending funds in an efficient and productive manner?