Stewart Black*

Redevelopment in California: Its Past, Present and Possible Future

Abstract: On February 1 2012, in a remarkable development, California's 400 redevelopment agencies were dissolved. This article (1) traces the agencies' evolution and the wider 67-year history of redevelopment in California; makes comparisons with other states' use of redevelopment and tax increment finance to support redevelopment; assesses the position immediately prior to dissolution of the agencies; examines the meaning of the actions leading to dissolution; and considers the immediate impact of dissolution (Part 1). (2) Draws some conclusions about the recent model for redevelopment; and provides a detailed discussion of how the model might be improved in the event of a future revival of redevelopment – in particular by addressing known past problems relating to clarifying policy outcomes, inter-governmental partisanship, measuring success, improving reporting and accountability, and improving responsibilities for these activities at state and local levels (Part 2).

Keywords: California; redevelopment.

***Corresponding author: Stewart Black,** e-mail: stewart@stewartblack.com

1 Part One: Redevelopment's Past and Present

1.1 Redevelopment in California: A Brief Summary of its Purpose, History, and Funding

Redevelopment occurs where there are improvements made to land or property in localities within municipal areas. All redevelopment activity relates to the central concept of "blight" – that is, localities which have become run-down in terms of their physical and economic health, yet can be revived. The original focus of blight was dilapidation, and its association with slums. However, over the decades, in California as well as other states, the focus has shifted to addressing the problem of property which has declined in value or alternatively whose use value is significantly short of what is possible.

In turn, redevelopment is based on the twin recognition that private enterprise alone has not in the past always accomplished, and cannot always in future

accomplish, that revival or revitalization – but the revival can be accomplished with the use of initial public funding, which can then attract private investment and other public investment. This initial public capital is often in the form of borrowing via bonds created under a financing mechanism called tax increment finance (TIF), discussed later in this paper.

California was the pioneer of redevelopment in the sense that the first redevelopment agencies in any US state were established in California, following the State giving legal consent for this. Redevelopment in California began in 1945 as an initiative to improve run-down localities, then relying mostly on federal grants. The California Community Redevelopment Act of 1945 enabled any city or county to establish a redevelopment agency to address blight which was arresting development and growth within a community by declaring an area within its jurisdiction to be blighted and needing redevelopment. The new redevelopment agencies managing this revival were not empowered to levy taxes, but were permitted to incur debt to finance their programs.

The Legislature re-codified the various redevelopment laws as the Community Redevelopment Law in 1951, and also authorized use of tax increment financing. In 1952, voters approved an amendment to the State constitution authorizing distribution of property tax revenues to redevelopment agencies from increased assessed property values in project areas – their support intended to relieve taxpayers of the costs of redevelopment by making projects self-supporting, on the basis that post-redevelopment property revenues will be greater than those prior to redevelopment. It is this assumption – almost always, but not invariably, achieved in practice – which underpins the TIF mechanism. The agencies increasingly financed their activities via construction bonds which were later repaid through the growth in property tax revenues in the redeveloped localities. The agencies also increasingly used that financing mechanism to attract other investment – particularly private investment.

From the 1950s until the early 1970s, redevelopment – then often termed "urban renewal" – was for many people characterized by the negative experience of widespread demolition of buildings and displacement of residents, without any requirement to replace the housing which was lost – in contrast to the position today.[1] Even today, those practices still make some distrust redevelopment. Partly in reaction to this, in 1976, California's redevelopment legislation added a requirement that redevelopment projects include provision of affordable housing.

1 In that era, federal government (Housing & Urban Development) funding was a more significant source of funding than the tax increment finance which is now underpins redevelopment. The negative experiences of demolition in one California city – San Francisco – in that era are discussed in Hartman, Chester (2002): City for Sale – The Transformation of San Francisco.

The passage of Proposition 13 in 1978 decisively restricted the ability of cities and counties to raise property taxes. Many of those municipalities have since then increasingly relied on redevelopment property tax revenue to achieve their goals.

There was a major re-definition of redevelopment in the Community Redevelopment Law Reform Act of 1993, which introduced several significant changes, including

- for the first time, establishing a definition of blight (i.e., the basis for the granting redevelopment agencies powers such as tax increment financing, eminent domain and land use control)
- placing time limits on redevelopment activities
- requiring the transfer of "set aside" payments to school and other tax authorities in the locality of redevelopment areas.

The State Legislature has since introduced further refinements – for example, to

- adjust the time limits for redevelopment projects (in 2000, 2006 and again 2010)
- impose additional restrictions on use of eminent domain and also to narrow the definition of blight (in reaction to the US Supreme Court case of *Kelo v. New London*), with the effect of making it difficult to extend plans without proof of remaining blight while also triggering the requirement to support further affordable housing (both 2006).

Although changes were introduced on four occasions between 1993 and 2010 in relation to the criteria for the permissible lifespan of projects, overall, very few projects have expired to date – indeed some date back to the 1960s, and exceptionally even earlier. However, a large number are expected to end in the next 15 years. The changes allow localities some latitude in how the lifespan of some projects can be extended.

To summarize the current position, the Community Redevelopment Law authorizes local officials – once they have determined successfully that an area is blighted – to establish community redevelopment agencies, adopt redevelopment plans, finance redevelopment activities exercise powers of property management (including eminent domain), and utilize powers of property tax increment funding.

It is perhaps worth ending this brief 60-year review with a closer look at what "blight" means. Until the 1990s, State law did not define "blight," and instead described its characteristics. This created a latitude which allowed local officials to adapt State-wide law to fit local circumstances, and to designate areas as blighted in judgments which were sometimes criticized, and even successfully challenged in court. The Community Redevelopment Law of 1993 set out California's first statutory definition of blight.

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 be tackled only with redevelopment. 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.

Finally, to put the position in California in context, Johnson and Kriz found that California was one of only seven states which require some form of *quantified* evidence of blight (Johnson and Kriz 2001: p. 38).

1.2 Redevelopment and Tax Increment Finance Experience Across the US: How California Compares

Writing of the 1940s and 1950s, Lowe comments that "the redevelopment formula, as generally understood, was to use eminent domain[2] to acquire and clear slum or blighted land which could be sold to private enterprise for rebuild-

2 That is, compulsory purchase of property by a legally-authorized body, with or without compensation to the owner or occupier, for redevelopment purposes.

ing under public controls. Redevelopment had gained sufficient currency by 1943 for 11 states to have passed the enabling legislation" (Lowe 1967: p. 29). However, "redevelopment proved doggedly slow in getting started," despite the two-thirds federal aid program to support it in Title 1 of the 1949 Housing Act, so that "by 1954, few municipalities had been able to take a redevelopment project beyond its initial planning stage" (Lowe 1967: p. 34).

As Scott explains, one reason for this was challenges by irate litigants. State supreme courts in Florida and Georgia struck down their states redevelopment laws, while other courts such as Oregon's upheld them. It was not until the US Supreme Court decision of 1954 in *Berman v. Parker* that "all doubts about the constitutionality of redevelopment were finally ended" (Scott 1971: p. 491).

Meanwhile, the Housing Act 1954 brought new federal funds. It also focused on the concept of "urban renewal," which was wider than redevelopment as it related to municipal slum-prevention which was city-wide. It also recognized that urban decay was caused not only by owners and tenants but in some cases also by cities themselves (Lowe 1967: p. 36).

Redevelopment was typically referred to in the 1950s and early 1960s as "urban redevelopment." An early definition of urban redevelopment was "policies, measures and activities that would do away with the major forms of physical blight in cities and bring about changes in urban structure and institutions contributing to a favorable environment for a health civic, economic and social life for all urban dwellers" (Woodbury 1953: p. vii).

The Housing and Urban Development Act and The New Communities Act of 1968 provided financing for developers to develop new communities. In the next decade, the Housing and Community Development Act 1974 established the Community Development Block Grant program which marked a focus on redevelopment of existing neighborhoods and properties, as contrasted with mere demolition of substandard housing.

Accompanying and supporting this redevelopment activity across the US was Tax Increment Finance. TIF was first used as a funding technique in California in 1952 (Man 2001: p. 1). By 1970, only six other states – Minnesota, Nevada, Ohio, Oregon, Washington and Wyoming – had joined California in using TIF. However, keeping pace with states' growing interest in redevelopment, by 1997, 48 states had passed legislation authorizing TIF (Johnson and Kriz 2001: p. 31).

At the same time, however, there were big variations between states. In 1987, 467 cities in California had TIF-resourced redevelopment districts, while Hawaii, Mississippi and New Jersey all had had enabling legislation for at least 2 years yet no TIF redevelopment districts. Meanwhile, California's redevelopment legislation then ran to over 300 pages while Alaska's was a single page (Johnson and Kriz 2001: p. 32).

In another important respect, however, the national picture resembles the one in California, in the reasons for increased interest across states in both redevelopment and TIF from the mid-1970s. A set of factors made redevelopment/TIF attractive to lower-level municipalities, including at least five interacting issues – economic and social decline in many urban areas, restrictions on the use of tax-exempt municipal bonds, the increasing transfer of responsibility for urban policy issues from state to lower-level municipalities, reductions in federal support for redevelopment-related activities, and public resistance to tax increases.

Johnson's analysis of TIF is that it has undoubtedly become a useful, effective tool for local governments to finance capital projects in support of economic (re)development, and TIF-funded projects have successfully addressed urban blight. TIF has also been used to overcome local fiscal stress. However, while there are case studies where TIF has produced good results (e.g., accelerated growth in property in Michigan, and improved property values and employment levels in Indiana), and in others TIF has failed to produce such results. Meanwhile, there is evidence that TIF is associated with negative effects, such as loss of property tax revenue for jurisdictions (e.g., school districts) which overlap with the redevelopment area – unless there are compensating arrangements (e.g., "pass through" payments; the right for affected jurisdictions to exclude themselves of decide he extent of their exclusion). Overall, Johnson concludes that there is not yet enough research to form a rounded judgment on the impact of TIF. A further complication in forming such a judgment is that although 48 of the 50 states use TIF, its use varies – so that practice looks different in, say, California, Texas, Illinois and Minnesota (Johnson 2001: pp. 257–259).

1.3 The Situation in California Prior to Dissolution of Redevelopment Agencies

As a consequence of redevelopment activities in California over the past 60 years, there are now "tens of thousands of affordable housing units, hundreds of thousands of square feet of commercial and industrial space, and hundreds of public buildings" in redevelopment project areas (Detwiler 2011: p. 2). This includes housing which is affordable, as well as housing for full market rent. The public buildings include libraries, sport stadiums and fire stations.

The scale of redevelopment in California has been considerable. In 2008–2009,

- there were 425 redevelopment *agencies* (of which 399 were active)
- the agencies operated 749 redevelopment *project areas*, ranging from 2 to 85,100 acres
- the agencies covered *cities* as follows: 100% of cities with populations over 250,000 had redevelopment agencies, 94% of cities with populations over

50,000 had redevelopment agencies, and 81% of all cities had redevelopment agencies (Detwiler 2011: p. 2).
NB A minority of redevelopment agencies have been established by *counties*.

At the same time, redevelopment activity was more concentrated – geographically and financially – than the statistics above may suggest. In 2008/2009

- 31 of California's 58 counties had redevelopment agencies (of which 26 had active agencies)
- in terms of finance
  - (i) of the 425 agencies, 39[3] received half of the property tax increment revenues
  - (ii) of the 425 agencies, 35[4] spent half of the total redevelopment expenditures
  - (iii) of the 425 agencies, 32[5] accounted for half of the total indebtedness (*ibid.*).

Redevelopment agencies were State-authorized local governmental entities. Local governments had some discretion in how they established and operated an agency. Most agencies were governed by local elected representatives (e.g., city council board of supervisors), but a few (e.g., San Francisco) had a governing body consisting of appointed members. The governing body of the redevelopment agency adopted multi-year long-term plans for redevelopment activities in blighted areas. These plans established an important framework for redevelopment.

The State had two main, related interests in the success of local redevelopment initiatives

- policy: e.g., eliminating physical and economic blight; affordable housing
- funding: the State's General Fund financially supports redevelopment agencies and their work. The value of this support was estimated at approximately $1.7 billion by Gov. Brown in his January 2011 budget proposals.

State-wide, property taxes are a significant source of revenue, within which redevelopment property tax was increasingly important. The Legislative Analyst's Office noted that "Californians pay over $45 billion in property taxes annually. County auditors distribute these revenues to local agencies – school districts, community colleges, the counties, cities, and special districts – pursuant to state law. Property

3 The top 10 were Los Angeles, San José, San Diego, Oakland, Fontana, Riverside County, Rancho Cucamonga, Long Beach, Industry and Palm Desert.

4 The top 10 were San José, Los Angeles, San Francisco, Oakland, San Diego, Riverside County, Industry, Fontana, San Marcos and Sacramento.

5 The top 10 were San José, San Diego, San Francisco, Los Angeles, Industry, Fontana, Riverside County, Santa Ana, Oakland and Rancho Cucamonga.

tax revenues typically represent the largest source of local general purpose revenues for these local agencies" (LAO 2011: p. 1). The LAO also noted that "redevelopment's share of total statewide property taxes has grown to 12 percent. 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." (*ibid.*) These relatively high levels of redevelopment-related property tax revenue can be seen as a measure of the powers which redevelopment agencies received.

Meantime, redevelopment was also significant as an economic activity. According to the California Redevelopment Association,[6] redevelopment supports more than 300,000 jobs and contributes more than $40 billion each year to the State's economy. Protect Our Local Economies claimed that redevelopment supports 304,000 jobs annually, including 170,600 construction jobs; contributes over $40 billion annually to California's economy in the generation of goods and services; and generates more than $2 billion in state and local taxes in a typical year (Protect Our Local Economies 2011). [As discussed later, these employment estimates were contested, for example by the Legislative Analyst's Office (LAO 2011).]

1.4 The Underlying Financial Issues in Redevelopment Prompting the Governor's Proposal – the Finance and Distribution Models

1.4.1 The Finance Model: Tax Increment Finance

The current financial model for redevelopment – often called tax increment financing – is straightforward: subsidize investment in blighted areas through bond issues, then pay back the bonds with the increased property tax revenue that results. The municipality carries out an assessment of the value of an area

6 The CRA has been an important organization in the field of redevelopment. In early 2011, it described itself as follows: "The California Redevelopment Association (CRA 2011a,b) was established as a not-for-profit organization in 1979. CRA represents redevelopment agencies and allied firms throughout the state of California in responding to legislative proposals and administrative regulations, providing member services, conducting training and professional development events, and providing public information regarding redevelopment law and activities. CRA is comprised of over 350 redevelopment agencies. In addition, CRA's associate members include more than 300 private sector companies such as financial institutions, redevelopment consultants, developers, and law firms that are involved in the redevelopment process."

before redevelopment takes place [the base year], estimates what that same area's local taxes would be after redevelopment, and can borrow money against the "incremental difference" between the two assessments.

Redevelopment agencies cannot issue bonds on the basis of those estimates alone. There must be growth in property value in the first few years following the establishment of a base year and a financially feasible development plan for the remaining years. Agencies need some tax increment to pay for the issue of the bonds, and projections of growth based on a feasible plan make the bonds attractive to potential investors. Stimulating this initial growth in property value – particularly in the first 5 or so years of the plan's period – is typically the greatest challenge facing redevelopment agencies. To meet it, in the early years, some agencies borrow money from the local municipality to pay for public improvements that serve to attract private investment. Other agencies rely on "master" developers' contributions to pay for staffing and initial improvements, and these developers typically seek reimbursement for these early expenses from future tax increment and may enter into binding agreements with the city or county to make these payments ("Tax Increment Allocation Agreements").[7]

Cities and counties have other options to accumulate public finance for economic development, as an alternative to establishing redevelopment agencies. There include creating or using

- infrastructure financing districts
- business improvement districts
- general obligations bonds
- limited obligation bonds
- revenue bonds
- Mello-Roos Act bonds
- assessment bonds.

Most of these methods require approval by voters, or businesses or residents – and in the case of many of the bonds a two-third majority rather than a simple majority is also required. Business improvement districts also have "sunset" requirements, involving the need for re-authorization (e.g., every 3–10 years).

In contrast, redevelopment has no equivalent approval requirements. The ease of use of TIF therefore means it is not surprising that this is the main method of financing redevelopment in California – and in other states also. At the same

7 Recent examples in San Francisco of master development agreements whereby the developer pays up-front costs and the agency pledges future increment are Mission Bay, and the new Candlestick Point-Hunters Point Shipyard Plan.

time, the methods which are alternatives to TIF could be adapted by the State, to make them a more attractive alternative to tax increment financing (e.g., by removing some of the restrictions on the creation of infrastructure financing districts). In addition, there are more modest tools available, which in some circumstances offer a low-cost alternative to redevelopment – e.g., loans to small businesses, programs to fund improvement of facades, and community benefit districts.[8] It has been suggested that these alternatives are less expensive and work well.[9]

It is worth noting that there have been concerns that exaggerated and undue credit has been given to the redevelopment agencies, relating to their effectiveness in increasing property tax values. The rationale for the agencies retaining the lion's share of the property tax revenue associated with their projects is that this arrangement reflects their effectiveness. However, a study by Dardia, published in 1998, examined this issue and challenged that assumption. It compared the changes in property tax values for 38 areas which were designated as under redevelopment during the period 1978–1982, with areas matched as closely as possible which were not redeveloped. Over the period 1983–1996, values increased more in the redeveloped areas – by an average of 144% in the matched areas as contrasted with 270% in redevelopment areas (Dardia 1998: p. 62). The first of these figures shows that increases in value take place without any redevelopment. However, the study also found that not all redeveloped areas had greater growth in value than the non-redeveloped areas: this was true of 27 of the 38 redevelopment areas, but not the remaining 11.

Dardia also noted that, to achieve more than the standard of being self-financing, projects have to add value so the increase in property value not only exceeds the value of the increment which would have happened anyway (i.e., the 144% increase the study found), but also met their payment obligations. When the data for the most recent year then available (1994/1995) were examined, only 4 of the 38 projects achieved that standard, while another four came close to it – i.e., fewer than a quarter of the 38 projects were self-financing (Dardia 1998: p. 63). The study also found that the projects which most successfully generated tax revenues were ones which began with an average of over 50% undeveloped

8 These initiatives are intended to improve the quality of life in the target commercial districts and mixed-use neighborhoods, through partnership between the city and local communities. If an area votes to establish a community benefit district, local property owners pay a levy to fund improvements to their neighborhood. The funds may be administered by a non-profit organization established for this purpose by the neighborhood.

9 For example, by Karen Chapple, Associate Professor of City and Regional Planning at UC Berkeley – see Oakland Tribune 3 March 2011.

property – i.e., the projects were as much or more focused on development (as contrasted with redevelopment), which was not intended to be the prime focus for redevelopment agencies.

There is also research showing that use of TIF for economic development purposes may achieve unexpected results for municipalities. Dye and Merriman examined the impact of TIF on economic development in the Chicago metropolitan area. They started by identifying at least four reasons why municipalities offer economic development incentives – market failure, blighted areas, bidding wars and inter-governmental revenue shifting – and examined "equalized assessed property values" (EAV) in the 81 municipalities using TIF and compared them with those which did not use TIF. They found that in the early 1980s, the EAV growth rates were similar in each municipal group, but that in the early 1990s, "adopters grew substantially slower than non-adopters (4.96% vs. 7.38%)" (Dye and Merriman 2000: p. 326). Overall, they conclude, "municipalities that elect to adopt TIF stimulate the growth of blighted areas at the expense of the larger town (*ibid*., p. 327).

1.4.2 The Redevelopment Property Tax Distribution Model

State law controls how the revenue from property tax increases is distributed by county auditors. The method differs according to whether a locality is, or is not, under redevelopment. Where the area is under redevelopment, the property tax revenues received by each of four different local governments – school K-14 districts, counties, cities, and special districts – are fixed ("frozen") at the point when the redevelopment project begins and that level of revenue ("the frozen base") continues to be allocated to them. Meanwhile, as redevelopment property tax increment revenue is generated, this revenue is received as unrestricted funding by redevelopment agencies, with two restrictions with which the redevelopment agencies must comply:

- State law dating for 1976 requires redevelopment agencies to spend 20 percent of their tax-increment revenues on low- and moderate-income housing.
- Following an amendment in 1993, State law established a requirement on the agencies to transfer ("pass through") some revenue, according to a formula, to each of four groups of local public bodies – school K-14 districts, counties, cities, and special districts. The formula, which is intended to at least partially offset property tax revenue which the bodies in the four groups have lost due to the growing share of tax revenue being received by redevelopment agencies, relates to post-1993 projects and generally increases the share the four groups of bodies receive over time. Prior to this formula being estab-

lished, the redevelopment agencies and other bodies negotiated local pass-through agreements. As a result, the "pass through" percentage varies from one project area to another, depending on factors such as the date the project was established.

The distribution arrangements above remain in place for the life of the redevelopment project. In California, this is usually 50 years, although some older projects have a longer life span.

In 2008–2009, from a total of $5.7 billion property tax increment revenues available statewide, the revenues were allocated as follows

- 22% was allocated ("pass through") to public services, comprising
  (i) counties (14%)
  (ii) K-14 schools (6%)
  (iii) special districts (3%)
  (iv) cities (1%)
- 20% was allocated to redevelopment agencies for affordable housing
- 58% was allocated to redevelopment agencies for redevelopment (LAO 2011: p. 6).

These are State-wide figures. As noted above, the actual "pass through" percentages vary by locality.

The State is currently required by constitutional mandate to assure a minimum level of financing for schools. So if tax revenue goes to a redevelopment agency, and the cities and counties are prohibited by Proposition 13 from raising property taxes, the State must meet any shortfalls in financing for school districts and community college districts from its General Fund, due to the effect of Proposition 98. (A further complicating factor is that a small number of redevelopment agencies have, on occasion, not paid the full share agreed for them of their "pass through" support for education.) In some instances, redevelopment agencies have become in effect a way for their localities to keep a larger share of property tax revenue while squeezing other local government bodies (the counties, school districts, special districts and cities), and leaving the State to pay more for education than it would otherwise have to.

Meanwhile, the State Legislature has required redevelopment agencies to pay additional amounts for schools (the Educational Revenue Augmentation Fund) from any funds the agency has. These ERAF or SERAF payments have been imposed on several occasions over the years. On the most recent occasion, in May 2010, the sum was substantial – a total of $2 billion across the State's agencies. Some agencies were unable or unwilling to pay this amount. Failure to pay

triggers the penalty of being prohibited by the State from undertaking any new activities and being restricted to fulfilling existing obligations.

The controversy over these SERAF payments led to the passage of Proposition 22, to prevent the state "raiding" local redevelopment funds – which in turn influenced Gov. Brown's proposal to eliminate redevelopment agencies.

The major conclusion here is that there are significant tensions between the interests of redevelopment agencies, other local government bodies, and the State.

1.5 Dissolution of California's Redevelopment Agencies

On 10 January 2011, Gov. Jerry Brown announced his budget proposals for 2011/2012. His proposals can be described as three-pronged – cuts in spending, extensions of taxes, and a set of proposals which transfer responsibility and accompanying funding from the state to counties and cities for certain public services.

His proposals for redevelopment and tax increment revenue related to the first and third of these "prongs," and included:

- dissolving redevelopment agencies by 1 July
- establishing successor agencies to receive property tax increment revenues, meet the debt obligations of the "old" agencies and manage completion of existing projects
- arranging that the redevelopment agencies' funds remaining after meeting the obligations above will be transferred to other local agencies – for example, transferring the balances in community redevelopment agencies' Low and Moderate Income Housing Funds for affordable housing to local housing authorities
- that, in 2011/2012, some of the property tax increment revenues will be used to offset the State General Fund costs for Medi-Cal ($840 million) and trial courts ($860 million), with the remaining $210 million to be distributed to the relevant counties, school districts, special districts and cities
- that, for fiscal years 2012–2013 onward, county auditor-controllers will allocate the remaining property tax revenues to counties, school districts, special districts and cities, using the normal allocation formulas (with the counties also receiving about $50 million in property tax revenues that would have gone to the water and sewer enterprise special districts) – an action intended to restore funding to those bodies and also to help meet the cost associated with Gov. Brown's proposed transfer of responsibilities from the State to lower levels of local government

– to use the money this will save the State in its support for redevelopment – estimated by Gov. Brown at $1.7 billion in the current year – to help reduce the acute funding shortfall in the State's general fund
– to encourage redevelopment to continue in jurisdictions that want it, by permitting cities to create limited tax increases and pass bonds against local revenues, with just 55 percent of voter support instead of the current two-thirds threshold.

In his January 31 State-of-the-State address, Gov. 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.*[10] *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.*

In June 2011, the Legislature moved to abolish redevelopment agencies (RDAs). AB XI 26 eliminated redevelopment agencies, while AB XI 27 gave RDAs the option of voluntarily paying a "remittance" to the State, to avoid being dissolved.

Legal challenges were widely expected, and in fact both bills were challenged. In December 2011, the State Supreme Court upheld AB XI 26, on the basis that if the State had created RDAs, it had the legal authority to dissolve them. At the same time, the Court struck down AB XI 27.

The Court's decisions had a number of impacts and imports – some of which were immediately visible, some clearer only on reflection, while some are not yet clear at the time of writing 10 months after the decisions.

Of the impacts which were immediately clear, six in particular were noticeable:

10 One irony underlies the Governor's proposals. In the period 1999–2007, when he was Mayor of Oakland, he was an enthusiastic supporter and user of the current redevelopment model. During his tenure, the proportion of the city's area which was declared blighted almost doubled.

- Having been the first state to support the creation of RDAs, California had become the first state to eliminate them.
- There had been evidence of abuses by certain RDAs. The combined effect of AB XI 26 and AB XI 27 might have been characterized – at least in part – as reining in bad practices. Instead all 397 redevelopment agencies, including those which had displayed the highest standards of conduct and could point to the most positive impact on their community, were to be swept away. There had been no recognition, for example, that some of the big city RDAs were more progressive (e.g., in their greater support for affordable housing) and less likely to show signs of abuse, in contrast to certain other RDAs (often associated with small cities) whose abuses have been highlighted in critical external audit reports.
- The Court's rulings favored the initiative begun by Gov. Brown, and correspondingly the rulings were widely characterized as the worst case scenario for the redevelopment lobby.
- It immediately became clear in late 2011 that there was an enormous practical task immediately at hand in winding up RDAs to comply with the legally-required deadlines. The deadlines[11] included a target date of February 1, barely a month after the Supreme Court decision, for dissolution of all RDAs and their replacement by successor agencies where possible.
- The Court decision re-confirmed what had in effect already been the position for most of 2011 – that no new redevelopment projects be agreed or could start.
- In comparison to their predecessors, the successor agencies have much-reduced autonomy – restrictions on the content of their redevelopment programs, on their ability to hold assets which do not relate to approved redevelopment work and associated financial obligations; changes in the tax revenues they will receive; and greater financial accountability.

The February 1 deadline was achieved. In most cases, the successor agencies became the "host" municipality with which the RDA was already substantially linked – although there were a small number of perhaps a half-dozen locali-

11 Other deadlines included

- April 15 – the deadline for successor agencies to submit Revised Obligation Payment Schedules (ROPS), essentially lists of projects and assets that they believe should continued to be funded from the Redevelopment Property Tax Trust Fund even while the state appropriates the remainder of agencies' former tax increments.
- May 1 – the deadline for oversight committees to be formed, to govern the successor agencies.

ties where the city (and other possible successors) refused to act as a successor agency (Stephens 2012a).

Meanwhile the RDAs – and later their successors – had to focus on clarifying their finances. As one commentator put it on February 1, "by turning themselves over to successor agencies today, redevelopment agencies essentially become accounting firms: poring over their books, figuring out their assets and liabilities, and submitting to the approval of oversight boards – one seven-member committee for every defunct RDA – to ensure that funds are disbursed to either the state or to legitimate creditors" (Stephens 2012b).

Gov. Brown and the State's Department of Finance assumed in the State budget that, after dissolution of the RDAs, the State would receive $1.7 billion in 2011–2012 and $1.8 billion in 2012–2013. They had also estimated that the total tax monies after dissolution of RDAs would be approximately $5 billion, of which approximately $2 billion would be needed by successor agencies to meet the former RDAs' debt obligations. The Governor's budget estimates that of the $1.7 billion that will be recovered from RDAs, $1.05 billion will go to K-14 schools, thus offsetting the state's Proposition 98 General Fund obligation. That leaves nearly $600 million for "pass-through" payments to counties ($340 million), cities ($220 million), and special districts ($170 million).

Some of the expected impacts of dissolution have become apparent. Many RDA staff have lost their jobs. There have been similar impacts in both the construction industry and in construction consultancies providing specialized services to RDAs. Meanwhile, as one commentator has suggested, "with the Governor's successful dissolution of redevelopment, affordable housing now counts among the most lamented collateral damage" (Sokoloff 2012).

2 Part Two: The Aftermath and the Future – A Revival of Redevelopment, and a Need for a New Model for it in California?

2.1 Observations and Conclusions

The debate in the weeks following Gov. Brown's January 2011 proposals focused on issues such as the desirability of dissolving the redevelopment agencies; the program, employment and other impacts of that dissolution; actions by some agencies to fast-track agreements for new redevelopment projects to beat Gov. Brown's deadline; the significance of Proposition 22 and other legal issues

involved; and of course the Legislature's consideration of redevelopment in the context of the State budget.

In the period up to the State Supreme Court decision, the focus of attention shifted to the dissolution legislation, and campaigning including legal challenges to stop dissolution.

In the period following the Court decision, attention again re-focused – the dissolution itself; the arrangements for transfer of responsibilities to successor agencies; agreeing which redevelopment activities should continue; and agreeing how residual property tax revenues should be divided.

At each of those three stages above, that focus on immediate issues – none of them trivial – was quite understandable. However, there are other issues which are perhaps deeper and of longer-term importance, in creating a more rounded understanding where redevelopment in California was, is now, and where it may be heading.

2.1.1 The Focus in 2011–2012 was Finance, not RDAs or Redevelopment

The dissolution of the agencies has had immediate and dramatic consequences. Nevertheless it can and perhaps should be understood as a powerful gesture within a much wider set of political/budgetary goals and actions whose main focus is not the redevelopment agencies or even redevelopment activity, but

- addressing the State's wider and profound structural budget problems
- re-aligning inter-governmental roles, responsibilities and revenues
- re-prioritizing the use of public subsidies and revenue streams.

In all of the above, it is two *financial* issues – the State's current financial support for local redevelopment activity, and the arrangements for distribution of property tax increment revenues – (not the continued existence of redevelopment activity or of the agencies) which were central.

2.1.2 Redevelopment was Well-Established, Important and Popular

The discussion in the first part of this paper suggests that redevelopment in California was well established. It was also a very significant activity in terms of economic development, certain social benefits (in particular, affordable housing) and – not least – also in terms of the level of revenues available for distribution. Perhaps the next most important and appropriate observation is that none of the principal actors involved – including the Governor – wanted, or wants, to end

redevelopment as an activity. There is, of course, debate on the separate matters of the loss of redevelopment agencies and the roles of their successors. Nevertheless, in this sense, redevelopment is too important to be abandoned – and of course it has continued beyond February 1, 2012 *via* the continuing programs now managed by successor agencies.

Redevelopment is therefore assured some kind of future, albeit one which is already dramatically different from the recent model. However, there is key question here: "can new redevelopment return as a State-wide activity?" Some commentators with a knowledge of the field (e.g., Fulton 2012) believe it will re-appear. There have been early and clear signs of support for this viewpoint.

The effort to revive redevelopment began perhaps surprisingly soon, in 2012, with several bills proposed in Sacramento within months of the demise of the RDAs. The bills in effect sought to create vehicles for redevelopment to be, or possibly become, at least in part, alternatives to RDAs – either by strengthening the existing infrastructure financing district model, or introducing a new variant of past models:

- SB214 eliminated the voter requirement for a city or county to create an infrastructure financing district, and also expanded the types of projects which such entities could finance
- AB2144 aimed to authorize the creating of "infrastructure and revitalization financing districts" to finance projects receiving 55% voter approval; and
- SB1156 sought to allow local governments to establish a "sustainable communities investment authority" to finance activities in a specified area.

These bills were all vetoed by Gov. Brown on September 29, who felt they were all "premature" until "the winding down of redevelopment is complete," and also because the proposed legislation would endanger the State's achievement of the savings assumed for its General Fund in the current year. Nevertheless, the Governor's response does suggest that he envisages that redevelopment may return at some later date. In his veto of SB1156, he would "take a constructive look at implementing this type of program" later, and also that he is "committed to working with the Legislature and interested parties on the important task of revitalizing our communities" (Brown 2012).

2.1.3 Tax Increment Financing and its Alternatives

It is also important to remember that, like redevelopment activity, Tax Increment Financing has not disappeared. It remains a powerful tool. Indeed it is perhaps more powerful than is widely recognized: as Johnson points out "TIF is a process

for allocating public resources, not just a redevelopment finance technique" (Johnson 2001: p. 258).

For the moment, TIF in California appears to be in two places at the same time. It is the tool which was already being used in redevelopment projects it has been agreed can continue (and would have been used in many more projects which had to be abandoned in the period 2010–2011) – yet it is also slightly disgraced by its association with the poorer aspects of RDA practice and in particular its by its recent over-use. The legislative initiatives described at Section 2.1.2 above appear to recognize this latter point, in aiming to strengthen existing and devise new alternatives not only to RDAs but also TIF.

As Fulton bluntly comments "it was the cities' expansive use of TIF, of course, that did redevelopment in. With little state oversight, TIF had expanded to include close to $6 billion a year, or about 12% of the state property tax. Because the state is required to backfill the financial loss to schools, TIF was costing the state approximately $3 billion per year" (Fulton 2012b). Nevertheless, as Fulton reports, just 5 weeks after the dissolution of RDAs, at a Senate hearing, it was TIF which attracted the greatest attention. As explained in Part 1, TIF has clearly been an attractive financing method – particularly in relation to the alternative methods – and the dissolution of RDAs has not altered that attractiveness. Of course some dangers of TIF's mis-use also remain in place. If there is some future revival of redevelopment, it is probable that there will be a revival of interest in TIF also – and vice versa.

2.1.4 Issues of Poor Standards and Abuses

While there is relative enthusiasm for the activity of redevelopment and its benefits, this is accompanied by concern – for example, expressed in audit and other investigative analysis, and also in the media – about the seriousness of behaviors in certain redevelopment agencies relating to the standards of management, accountability, propriety, and even lawfulness. Three observations here appear relevant

- these behaviors related to the actions of a minority of agencies, not the majority – with some evidence (e.g., from the State Controller's 2011 investigation) that they were more associated with certain smaller RDAs
- nevertheless, those behaviors were an element in the debate on development agencies before Gov. Brown's January 2011 proposal to eliminate RDAs, and have been were an even more important element in the debate throughout 2011 on the future of RDAs, until the Supreme Court decision of December 2011

– in turn, those past behaviors are likely not only to affect future standards – indeed, in parallel with the move to dissolution, there were also proposals to tighten existing standards[12] – but to ensure that the issues of standards will be a major issue to be addressed in the event of a revival of redevelopment, once the current winding-down is completed.

The discussion above might be summarized in the following four conclusions:

– **Conclusion 1: Redevelopment is Desirable:** Redevelopment as an activity is important, desirable, enjoys support, helps generate revenue, and deserves a future, particularly to the extent that it promotes equitable development for the diverse needs of the community.
– **Conclusion 2: The Recent Model for Redevelopment had Serious Problems:** The recent model – however long-standing it had been – did not appear to be a fully desirable one. As this paper has suggested, there are many reasons to reach this conclusion, but among the five most important are:
  (i) it was not fully clear which goals redevelopment should achieve
  (ii) there was a scarcity of evidence of what the recent model was actually achieving
  (iii) redevelopment revenues were a source of tension between different levels of government and public bodies
  (iv) there were gaps in standards, transparency and accountability
  (v) reporting and scrutiny arrangements existed, but had important weaknesses.
– **Conclusion 3: The Problems Pre-Dated the State Budget Crisis:** The question of the future of redevelopment agencies was brought to a head by Gov. Brown's proposal to dissolve the redevelopment agencies, in the context of the State's fiscal crisis. However, the problems in the recent model described at the second conclusion above, pre-date that proposal. Similarly, the issues which prompt consideration of the need for change in the current model are not wholly or even primarily related to the State's current financial crisis, nor are the issues chiefly ones relating to revenue distribution.
– **Conclusion 4: An Improved Model is Needed:** If possible, the recent model should be changed to address those and other relevant problems. The question of how that improvement might be achieved is the focus of the next stage of this paper.

12 SB 450 and SB286 were clear examples of this.

2.2 Options for Change in the Redevelopment Model

Based on the analysis above, what are the options for a fresh model for redevelopment, which helps achieve the benefits of redevelopment but also addresses the known past problems?

The discussion below presents four options for improving the current model of redevelopment

- better specification of policy goals for redevelopment;
- improved inter-governmental relations;
- improved assessment of outcomes; and
- improved reporting of achievement of these outcomes/improved oversight.

The options are not presented as substitutes for each other: arguably all are needed and they form a logical sequence of linked actions.

There is also a fifth option which addresses state and local roles in taking forward improvements in the recent model for redevelopment.

The discussion in this section of the paper relates to options for improving the redevelopment *model*, not specialist *agencies* for redevelopment. The current successor agencies could take on some of the local (i.e., non-State) roles discussed below – as could any "new-look" future specialist agencies. In addition, it is possible to pursue policy goals such as those listed in the table below, yet to give the responsibility (and some supporting revenue from property tax) for some actions to achieve those goals to agencies other than specialized redevelopment agencies.

2.2.1 Option 1: Defining Better the Goals of Redevelopment

A very important conclusion in this paper is that, given California's very long experience of redevelopment, it is noticeable how weak policy thinking has been about the intended benefits of redevelopment.

There are various *possible* goals for redevelopment. They all differ from each other, and most have been goals at either State or local level – often both. Table 1 lists 8 possible "big goals"[13] for redevelopment. It is possible that further goals

13 SB 286 included a requirement that agencies' implementation plans should focus on State priorities such as job creation, cleaning up contaminated property, basic infrastructure needs, and affordable housing.

Table 1: Possible Policy Goals for Redevelopment.

	Possible Policy Goals	Comments
1	Tackling different forms of blight/property which has lost value or is under-used	This has been the original and core policy goal of redevelopment in California since 1945, albeit that the focus has moved from dilapidation to improved value and use. The scope here can vary – e.g., – infill development (i.e., where there is a void lot, or demolition is needed, to better use the space) – adaptive re-use of buildings or lands, or re-use and rehabilitation of larger "brownfield" sites and/or buildings – (on a wider geographical scale, for which infill work and re-use may each be a catalysts) neighborhood development.
2	Employment aspects of economic development	Redevelopment-related job creation/retention[14] is probably the second most traditional policy goal.
3	Stimulating of local economies	This is typically achieved by using redevelopment to stimulate industrial, commercial and retail development. Another less common example is using redevelopment to create destinations of interest to tourists ("tourist quarters").
4	Improving social justice	The main example of this is the State law "set aside" funds which has required redevelopment agencies to allocate 20% of their property tax increment revenues to increase, improve, and preserve the supply of affordable housing (AB 3674, Montoya 1976) – the Low and Moderate Income Housing Fund for affordable housing. This is widely regarded as one of the success stories of the recent model of redevelopment. A different example is ensuring that redevelopment addresses the problem of the absence of stores in certain localities, to improve quality of life for residents.
5	Creating public facilities	Examples include cultural and recreation/sport facilities (e.g., libraries, stadiums), fire stations and public parks.
6	Tackling environmental goals	Examples here are using redevelopment to address imbalances in population densities; to develop place-making/more livable and sustainable urban areas; and combating climate change.
7	Helping meet transport goals	Supporting increasingly transit-oriented development – often characterized as "smart development" – is currently an important policy goal for Sacramento.
8	Tackling certain forms of crime	As noted in Part 1, one of California's seven "conditions of economic blight" is "a high crime rate that is a serious threat to public safety and welfare."

14 California Senate Office of Oversight and Outcomes began its report on redevelopment agencies and affordable housing by stating that "California's 398 redevelopment agencies exist primarily to obliterate blight and create jobs" (California Senate Office of Oversight and Outcomes 2010: p. 1).

can be added: these are the main ones identified from the analysis in this paper, and are set out for illustration rather than to provide a precise template. The listing in Table 1 is therefore not definitive, but is a step towards a State-wide listing. Table 1 does not rank goals against each other. It should also be noted that while the suggested goals are meant to be discrete, some goals support each other – for example, creating jobs (#2) boosts local economies (#3).

NB The listing in Table 1 does not include

- addressing weaknesses or failure of the market, in one or more of the areas above, via the "*pump-priming*" injection of public resources. This is of course a traditional goal of redevelopment – indeed arguably its original instrumental role. At the same time, that role differs from the goals in the table, because it is a *means* to achieve ends (such as those listed in the table), rather than an end in its own right.
- A goal widely attributed to redevelopment – "*urban revitalization*" – is excluded from the table as it often appears to be *the over-arching goal of redevelopment policy,* i.e., it is perhaps best understood as the "sum" of the different goals which can be listed in Table 1.
- **Generation of property tax revenues** is arguably the most important *output* of redevelopment. As explained earlier in this paper, those revenues have been substantial, and have been used by local governments to ease fiscal stress. Nevertheless, it is a moot point that generation of these revenues should be regarded as a policy goal: as Johnson and Kriz comment, "TIF was not envisaged to be a financing source for general government expenditures" (Johnson and Kriz 2001: p. 37). Instead of being regarded as a policy goal, property tax revenues should more appropriately be regarded as *resources* to achieve goals such as those listed in Table 1.

Johnson and Kriz suggest that the restrictions placed by states on redevelopment reflects what the states value most – in effect, revealing state's policy preferences. They contrast California's requirement of 20% revenues to be spent on affordable housing with Massachusetts which requires that TIF revenues be used solely to attract and retain commercial and industrial projects (Johnson and Kriz 2001: p. 51). Of course, this is an indirect and less effective way of identifying policy goals – as contrasted with making those priorities direct and explicit, as a device such as Table 1 attempts.

Option 1 is therefore action to clarify arguably the most fundamental question of all about redevelopment – "what is redevelopment intended to achieve?" The discussion in this paper suggests that there has never been a point in time in California when there was a single policy goal answer to that question.

In essence, there are four fundamental reasons why this policy clarification is needed now, and indeed has always been needed:

- to fail to do so is poor practice in public policy
- without the aims of redevelopment having been previously agreed, it is literally impossible to make a meaningful judgment of what redevelopment is achieving – at both State and local level
- the absence of agreed aims is already known to have caused cause difficulty: redevelopment can has been used to serve a wide range of goals, including some which have been highlighted (e.g., by audits or surveys) as questionable, controversial or even illegal
- not only to define what the goals of redevelopment are (i.e., including their importance in relation to each other), but also what priority redevelopment should have in relation to other public service activities (e.g., education, social care, fire and police) – since, as was explained in Part 1, that too has been a problem.

2.2.2 Option 2: Improved Inter-governmental Relationships and Revenue Benefits

There are numerous ways in which the different governmental bodies – the State, counties, cities, school districts, special districts, community redevelopment agencies, and other entities – which make up California's system of government and publicly-funded agencies look after the interests (political, executive, financial, etc.) of their own agency. On occasion, they do so at the expense of other agencies in the system.

Most of that partisan activity is beyond the scope of this paper, but to give three examples

- redevelopment agencies and their partners have benefited from property tax increments, without commensurate benefit to the group of four other local agencies (school districts, counties, cities, and special districts) affected, while at the same time triggering Proposition 98 requiring State funding to address school spending shortfalls, so adding to the strain on the State's General Fund
- the State has on more than one occasion in the past "raided" funds held by redevelopment agencies, e.g., for Educational Revenue Augmentation Fund payments – in part triggering the successful attempt to limit such action (via Proposition 22)

– the Governor moved to not only re-direct redevelopment-generated property tax revenues but also to eliminate an entire group of public bodies, redevelopment agencies, after over 60 years in which they have been part of the California system described above.

An option which suggests itself strongly, therefore, is to use the occasion of the dissolution of RDAs to examine a wider issue: how the benefits of redevelopment can be transformed from a source of partisanship into a solution for all stakeholders – in particular, how the revenues from redevelopment can be used to improve inter-governmental relationships by doing what all parties are likely to value most: placing the revenue distribution relationships on a basis which is more equitable than in the recent model for the different bodies involved. In short, a major outcome for, and from, redevelopment could – and arguably should – be the reduction of redevelopment partisanship.

Reduced partisanship, or indeed the elimination of partisanship, is not an outcome normally associated with redevelopment. Nevertheless, experience in California in the period immediately prior to dissolution of RDAs suggest it perhaps should have been – at least in relation to distribution of property tax revenues.

2.2.3 Option 3: Improved Measures of "Success" – Outcomes

As earlier discussion in this paper has indicated (e.g., the observations of the Legislative Analyst's Office), thinking and practice about how to measure the outcomes of redevelopment were not well developed under the recent model.

Outcomes are benefits – measures of the extent to which redevelopment is achieving the public policy goals it is intended to achieve. Option 3 therefore links back directly to policy goals such as those discussed in Option 1 above.

As good practice in public management advises, outcomes should never be confused with the similar-sounding outputs. Two things are clear from the analysis in this paper:

– the evidence base for what redevelopment is accomplishing is not strong (i.e., it is not possible to see whether redevelopment is successful in achieving the outcomes intended) and
– most of the available information is *output* data (e.g., acres redeveloped, square feet of new office or commercial space, housing units completed, and of course – what has become the single most important measure – property tax income generated) rather than *outcome* data.

It is possible to illustrate the weakness of the evidence base under the recent redevelopment model by using examples relating to the three policy goals with which redevelopment has been most closely associated – tackling blight, boosting employment and improving economic development.

- **Blight:** Alleviation of blight is the key focus of redevelopment. As the first part of this paper showed, redevelopment in California began with legislation in 1945, yet it was not until 1993 that there was a statutory definition of blight. In addition, it is unclear whether localities regard blight in "absolute" or "relative" terms – that is, whether areas which have been designated as "blighted" have been compared to a State-wide standard, or are simply blighted by the standards of the municipality. Perhaps not surprisingly, therefore, the Spring 2011 review of development agencies by the State Controller found that "under current legal standards, virtually any condition could be construed as blight" (SCO 2011b: p. 3).
- **Employment:** This has long been universally regarded as one of the central benefits of redevelopment. In 2011, it was the threat of job losses which was central to the campaign led by supporters of the redevelopment industry to defeat Gov. Brown's redevelopment proposals. However, as the first part of this paper showed, the Legislative Analyst's Office considers that employment estimates given by the pro-redevelopment lobby to have flaws.

  More specifically, the State Controller's Spring 2011 review of 18 selected RDAs observed that the redevelopment agencies themselves do not have "a consistent methodology to capture accurate and reliable data regarding the number of jobs created or retained as a result of redevelopment activities." The review found "no reliable means to measure the impact of redevelopment activity on job growth because RDAs either do not track them or their methodologies lack uniformity and are often arbitrary." Just 10 of the 18 agencies attempted to measure the number of jobs created by their projects. Of those 10 agencies, four "could provide no methodology or explanation for their figures," while "the remaining six all used different methods" (e.g., projections from developers, or permit and employment records) (State Controller's Office 2011). Meanwhile, perhaps most striking of all, there is no State requirement on agencies to measure the employment impacts of their activities, far less guidance from the State on how they should do so consistently across California.[15]

15 In the period immediately preceding dissolution of the RDAs, the California Redevelopment Association has recently made available to its members a calculator, developed by the CRA's research consultant. The CRA described it as helping agencies develop estimates of "of the number

Byrne examined the effect of TIF specifically on municipal employment, in Illinois. He found that the overall impact was neutral, but was positive in TIF districts which focused on industrial development and negative in those focusing on retail development (Byrne 2010).

– **Added Economic Value:** Since the 1940s, it has been taken for granted that if property tax values increase that not only is the tax increment finance model working but redevelopment is adding value as an economic activity. However, data supporting this claim are scarce and such data as exist do not quite support this view.

  Returning to this issue in early 2011, the Legislative Analyst's Office was unable to find strong supporting evidence – and indeed, in the absence of such evidence, suggested that gains in one locality (one part of a city in relation to another part, one city in relation to another, California in relation to another state) may simply be at the expense of another (LAO 2011) – i.e., that redevelopment may resemble a zero-sum game.

  The LAO also found that as some increase in property value happens in most localities over time, it is difficult to distinguish the benefits specifically attributable to redevelopment.[16] This was one of the issues examined by Dardia, who showed how slender are the claims are about what redevelopment was achieving – and also the importance of distinguishing development from redevelopment (Dardia 1998).

The California Debt Commission published guidance for RDAs in the mid-1990s. It recommended the use of evaluations, and suggested "potential performance measures" relating to four areas of RDA activity – economic development, revitalization, affordable housing and debt management (California Debt Commission 1995: pp. 30–31). It is noticeable how few of the policy goals in Table 1 these activities cover – but it is equally noticeable that most of the measures of success listed within the guidance are simple output (as contrasted with outcome) measures.

Output measures are without doubt not merely important but essential. However, they are not, and cannot be, a substitute measure for outcome or well-being benefits (i.e., benefits which are economic, social, environmental, cultural, etc.) which redevelopment creates. Unfortunately, output data are relatively

---

of jobs generated to build a project, the amount businesses profited, the total taxes generated, and the agency costs involved to produce the benefits." It largely uses data "included as part of the pro forma for new construction or in the annual report filed with the State Controller's Office."

16 In several western European countries, such benefits are referred to as "additionality."

precise, quantifiable and easy to obtain, while outcome data typically are none of these things – yet outcome data are the more essential of the two types on information. After over 60 years, redevelopment needs improved measures of "success." Similarly, while redevelopment areas are local territories (i.e., localities within cities, or less frequently within counties), they are not of local significance only. Redevelopment activities, tax increment generation and the behavior of redevelopment agencies all have State-wide significance too.

The discussion above considers why outcomes are important and highlights their scarcity in the recent model of redevelopment – but how can this issue be taken forward practically, if redevelopment were to be revived?

It is quite feasible to improve the focus on outcomes by using the vehicle which was central to the recent model of redevelopment – the redevelopment plan (which, under the recent model, was created by each RDA to manage it program of redevelopment work). The redevelopment plan (sometimes titled a "Tax Increment Finance" plan) could easily be strengthened so that it begins by setting out explicitly the state and local policy goals which it is intended to achieve.

Moreover, past development plans were not created in a policy vacuum, because they were – and are – meant to reflect the goals set out in the existing community or master plan for the locality in which the redevelopment will take place. As Johnson and Kriz note, "the master plan of a community typically lays out several aspects relating to zoning, densities of residential and commercial properties, the provision of affordable housing, and other matters integral to housing development." They also found that most states require the redevelopment plan to conform to the community or master plan – but, in a potential source of weakness, they also found that no state defines "conformance" (Johnson and Kriz 2001: p. 40).

2.2.4 Option 4: Improved Reporting and Accountability

A redevelopment agency's annual reporting is potentially a valuable vehicle for the agency to report back to the community it serves, and the State, how far it actually achieved the public policy goals it was targeting (i.e., it is not simply reporting output data and information relating to financial propriety). Public reporting meets a major test of accountability, and arguably outcome-related reporting is the most important form of accountability.

Under the recent model, agencies were required to report annually to the State Auditor's Office (an annual report on all financial issues, plus an independent financial audit) and to the State's Department of Housing & Community Development (on their use of affordable housing funds). In effect, this means that reporting by agencies focused on only one (affordable housing) of the eight or

more possible "big goals" for redevelopment identified earlier in Table 1. It also means that the main focus of attention at local and State levels is the issue of financial propriety – which is of course important, but unrelated to the question of the pubic policy impact redevelopment activity is having. In the period since dissolution, there has of course been unprecedented financial scrutiny – in the different context of allocating former RDAs' property tax revenues.

In short, under the recent model, annual reporting was under-developed, thinking and practice on outcomes was under-developed and accountability was lessened.

Option 3 does not rule out any agency or its associated municipality carrying out an evaluation, as was suggested by the California Debt Commission in its 1995, particularly if it is a cyclical (rather than periodic tool) – say, an annual assessment of progress in relation to the goals in a redevelopment plan. This does not exclude other forms of examination, whether cyclical (e.g., routine external audit) or periodic (e.g., special external audit, academic evaluation). However, evaluations have been an under-used tool: Johnson and Kriz found that "only nine states had provisions in their TIF laws requiring evaluations" (Johnson and Kriz 2001: p. 53).

It is not difficult to explain why improved reporting and oversight is needed. Without those improvements – again in the context of over 60 years of redevelopment experience in California – the answers to "big questions"[17] such as the following were not available in the period until the February 2012 dissolution – and indeed are still not available, in relation to the questions which continue to be relevant since the dissolution:

- "what are the main aims of redevelopment in each locality/redevelopment district, and how important are they in relation to each other?"
- "how much of the redevelopment activity which has taken place would have taken place without public support and the investment of public money?"
- "to what extent is pursuit of redevelopment in one locality at the expense of such activity in another, whether within the State or beyond?"
- "to what extent do the strong revenues redevelopment receive deprive other public services (such as education, social care, police, fire) in the same locality as the redevelopment area?"
- "what inequities, if any, arise from State-wide support for redevelopment when – as in the recent model – almost half (27) of the State's 58 counties and 19% of its cities have no redevelopment agencies?"

17 These questions of course relate only to localities which have redevelopment activity. Not all localities are eligible for redevelopment activity as they do not meet the "blight" criteria. In addition, some redevelopment agencies have been regarded as too small to be monitored by the State.

- "to what extent do private development interests benefit disproportionately from redevelopment projects?"
- "to what extent does redevelopment activity provide the intended housing, jobs, and other economic opportunities to lower income households living and working in the areas subject to redevelopment?"
- "to what extent are the current redevelopment programs (e.g., affordable housing) effective in promoting equitable development serving all segments of the community?"
- "how far does redevelopment support the State's wider policy goals (e.g., for the environment, transportation, culture and recreation, etc.)?"

Questions such as these do not of course cast doubt on the value of redevelopment itself: instead they ask whether its impact is as intended. However, discussion in the first part of this paper suggests that obtaining the data to answer questions such as those is an issue in its own right – quite apart from what the answers themselves might be. Without that evidence it is impossible to judge whether redevelopment is achieving the outcomes intended – as well as other non-trivial issues such as whether oversight of public spending is meaningfully being exercised.

What underlies all these features – which appear to be long-standing – are several factors, of which the most important in the recent model appear to be:

- weak public policy interest at State level (Administration and Legislature) in attempting to specify the intended benefits of redevelopment, and identify more outcome-focused standardized measures of success (e.g., for tackling blight, added economic value, employment, social benefits, and other policy goals such as those listed in Table 1)
- similar weak interest on the part of the redevelopment agencies themselves and in the cities and counties which have established RDAs in clarifying local goals (which may vary from those at State level), and attempting to self-assess and communicate the outcomes of their own redevelopment activities to local citizens.

Clearly outcomes such as those above should, where possible, be mutually agreed between the city or county which already has created, or wishes in future to create, a development area (i.e., representing local interests), and the State (representing interests across all of California).

Affordable housing provides a good example of a redevelopment-borne initiative[18] which illustrates some of the mix of outcomes which are relevant – as

18 Affordable housing is financed not only by redevelopment but by other sources, such as federal home investment partnership funding.

well as also illustrating the limitations of assessing "success" in output terms (e.g., units built/redeveloped) rather than in outcome terms. The creation of affordable housing is clearly already a *social* benefit – that is, while the investment comes from economic development, the benefits are primarily social (e.g., provision of accommodation for those who cannot afford full market rents; addressing the accommodation problems of people such as those who are homeless, overcrowded, badly housed, or are otherwise unable to move out of institutional care). At the same time, some affordable housing clearly offers *economic* development benefits too, where housing (like other public goods, such as transport) is developed to support the ability of people to be economically active – for example, by allowing them to move to a locality to take advantage of job opportunities and where the construction or rehabilitation of affordable housing provides well-designed, physical improvements. So, the social and economic benefits both have links to public policy in related areas such as social care, health care, employment and transportation.

2.2.5 Option 5: State and Local Roles in Implementing Improvements to the Redevelopment Model

There are at least two different possibilities here for improvement action – the State taking the lead role in collaboration with stakeholders, and a more "voluntary" local, redevelopment-led model.

- **State-Led Improvement:** The State is de facto custodian of the legal framework and State-wide policy for California's redevelopment system, and so it is appropriate to suggest it should take the lead role to ensure policy and practice in the areas addressed in Options 1–4 is more developed. The Governor, Legislature[19], major departments (e.g., Housing & Community Services) and other State-level bodies (e.g., State Controller's Office) could be involved.

  This model creates a challenge, particularly in the area of inter-governmental relations, where the State is simultaneously a major actor within California's governmental and redevelopment systems as well as a custodian. Nevertheless, across Options 1–4, the State could take the lead role, working in collaboration with the other governmental bodies, and also other relevant bodies (e.g., the California Redevelopment Association and the League of California Cities) as follows:

19 The part of the Legislature which could be involved should reflect existing policy responsibilities. For example, in relation to affordable housing, the Senate Transportation and Housing Committee could have a lead role.

(i) **Policy goals for redevelopment**: Following the Governor's budget-led proposals for redevelopment, the Governor and the Legislature could follow this up by examining systematically the goals redevelopment should aim to achieve (see Table 1 above), then – following consultation with local governments, redevelopment agencies, the public and other stakeholders – agree a specification of the goals and associated outcomes (see below) to be achieved, and publicize examples of good practice.

(ii) **Inter-governmental relations**: Identify relationships and redevelopment property tax revenue distribution arrangements which, if not perfect, are more equitable and stable than those under the recent model, and are recognized as such by all levels of government.

(iii) **Outcomes**: Identify the range and mix of outcomes which are appropriate for publicly-supported publicly-taxed redevelopment activities then agree its proposals with the local governments affected – leaving the cities and counties which have established redevelopment agencies, and the redevelopment agencies themselves, to choose from that framework – and add to it – the outcomes which are appropriate to their locality, consult on them, include the agreed outcomes at the centre of their redevelopment plans, manage their plans so as to achieve them, and report on how far they have achieved the outcomes

(iv) **Reporting and accountability**: Review the effectiveness of current reporting and accountability arrangements, identify improvements, consult on them, and arrange that they are established and that effective scrutiny of them is put in place.

– **Redevelopment-led Improvement:** Alternatively, it is possible to envisage a collaborative partnership comprising bodies such as the League of Cities and the California Redevelopment Association leading improvement efforts. This would have the merits of building on knowledge of the needs of local communities and also strong redevelopment practice knowledge (albeit that there has been a significant loss of knowledge because RDAs have been dissolved and many former staff have lost their jobs, with a significant loss of organizational knowledge).

However, it is difficult to envisage such a partnership being best placed to address the California-wide strategic issues which are central to the four areas above, and there would arguably be even more conflicts of interest in this approach than in the State-led approach.

Overall, this suggests that perhaps both a combination of both options may be desirable: State-led action to pursue strategic issues, and agency-led action to improve operational practice.

2.3 Prospects for Developing a New Model

At the time of writing, the prospects for the options above being taken forward look limited.

First, the successor agencies have a much narrower role than their predecessors, and the focus of the dissolution legislation has been to restrict their freedom of operation – and not to clarify the contributions they should be making to achieving local and State public policy.

Second, the post-dissolution bills presented in Sacramento, discussed in Part 1, have focused on finding alternative vehicles for redevelopment activity and finance for it. They have not focused on clarifying, or re-specifying, the policy goals of any post-dissolution renewal of redevelopment. Nor has there been any focus on improving success measures, or arrangements for reporting or accountability.

Nevertheless, the options for improving the model for redevelopment appear to remain relevant, for two main reasons:

- **continuing "old" redevelopment**: even if no form of RDA appears for several years, redevelopment as an activity will continue via the committed redevelopment programs of the "old" agencies: collectively, successors will still be responsible (legally, financially, etc.) for substantial programs of redevelopment, in some cases over many future years. It is therefore important to know which policy goals – such as those listed in Table 1 – their programs and projects are addressing, and how far they are achieving those goals. That remains true, however much reduced the program of redevelopment activity is across California, compared to the pre-dissolution program.
- **possible new redevelopment**: at the time of writing, it looks as if some form of "new-look" redevelopment may emerge – perhaps by encouragement of use of existing vehicles (e.g., Infrastructure Financing Districts) or by support for adapted/new vehicles (e.g., "infrastructure and revitalization financing districts," "sustainable communities investment authorities"), or even "new-look" RDAs. If so, then it will be even more important to improve scrutiny of redevelopment outcomes in those agencies.

2.4 Final Conclusions

This paper has neither argued for or against dissolving California's redevelopment agencies. It has instead focused on

- what the recent redevelopment model was, and how it was working (Part 1)
- what improvements might be made, if redevelopment is revived, to improve the model which might be used in future in comparison to its predecessor (Part 2).

There are four overall conclusions from the second part of this paper:

1. it is desirable to recognize redevelopment as an activity whose significance and value lies in much more than the financial issues of 2011–2012 – division of property tax revenue distribution, and the State's level of support for redevelopment
2. the recent model for redevelopment was not fully effective, but could be improved to address known problems identified via audit and other examination
3. the paper has identified four major areas in which sets of improvements can be made – the majority of which have a significance which pre-dates the current focus of debate budget on the State's budget and the future of the current redevelopment agencies (and at least some may remain problematic beyond the current State budget crisis) – and has also made initial suggestions about how those four sets of improvements might be taken forward
4. options such as those may become important, should there be a revival of redevelopment, beyond its current level of operation at the time of writing in Autumn 2012.

There was arguably a conundrum about dissolving redevelopment agencies when there was such weak evidence of what they had achieved in relation to both the "big goals" and the "big questions" identified earlier in Part 2. The current budget crisis provided an opportunity to all the main actors involved in redevelopment at state and local level to dig deeper to address known problems in the recent model. To date, that is a challenge which has not been met – but still could be.

However there is perhaps a second, deeper conundrum: redevelopment appears to be a solution for which the problem (i.e., the purpose of redevelopment) – after a remarkable 65 years – has not been sufficiently well specified. Again, the present appears to be an opportune if not overdue time to address this most fundamental of redevelopment issues. As this paper has sought to emphasize, one of the key questions – if not the key question – remains what "is the purpose of redevelopment?" The events of 2011 and 2012 have not answered that question.

References

Brown, Edmund G. (2012) SB1156 – Governor's Message. September 29.

Byrne, Paul F. (2010) "Does Tax Increment Financing Deliver on its Promise of Jobs? The Impact of Tax Increment Financing on Municipal Employment Growth," Economic Development Quarterly, 24:13–22.

California Budget Project (2011) *What Does the Research Say About Redevelopment?* Sacramento.

California Debt Commission (1995) *Recommended Practices For Redevelopment Agencies.* Office of the State Treasurer.

California Redevelopment Association (2011a) *Response To State Controller's Redevelopment Report*. CRA. 7 March.

California Redevelopment Association (2011b) *Alternative Proposal For Voluntary Redevelopment Contributions To Schools*. CRA. 15 March.

California Senate Office of Oversight and Outcomes (2010) *Where Does the Affordable Housing Money Go? – Administrative Spending by Redevelopment Agencies Lacks Accountability*. Sacramento.

Chapman, Jeff (2001) "Tax Increment Financing And Fiscal Stress – The California Genesis." In: (Craig L. Johnson and Joyce Y. Man, eds.) *2001: Tax Increment Financing And Economic Development – Uses, Structures And Impacts*. New York: State University of New York Press.

Dardia, Michael (1998) *Subsidizing Redevelopment in California*. San Francisco: Public Policy Institute of California.

Detwiler, Peter (2011) *Restructuring Redevelopment: Reviewing The Governor's Budget Proposal.* (Paper for Senate Governance & Finance Committee oversight hearing, 9 February).

Dye, Richard F. and David F. Merriman (2000) "The Effects of Tax Increment Financing on Economic Development," Journal of Urban Economics, 47:3006–3328.

Fulton, William (2012a) "Redevelopment Will be Back – But at What Price?," California Planning & Development Report, 27(1):1(2).

Fulton, William (2012b) "TIF Revival on the Table in Sacramento," California Planning & Development Report, 27(3):15(1).

Governor of the State of California (2011) *Budget Summary.*

Johnson, Craig L. (2001) "Conclusion." In: (Craig L. Johnson and Joyce Y. Man, eds.) *Tax Increment Financing And Economic Development – Uses, Structures And Impacts*. New York: State University of New York Press.

Johnson, Craig L. and Kenneth A. Kriz (2001) "A Review of State Tax Increment Laws." In: (Craig L. Johnson and Joyce Y. Man, eds.) *Tax Increment Financing and Economic Development – Uses, Structures and Impacts*. New York: State University of New York Press.

Legislative Analyst's Office (Feb 2011) *Policy Brief – The 2011–12 Budget: Should California End Redevelopment Agencies?* Sacramento.

Lowe, Jeanne R. (1967) *Cities in a Race with Time*. New York: Random House.

Man, Joyce M. (2001) "Introduction." In: (Craig L. Johnson and Joyce Y. Man, eds.) *Tax Increment Financing and Economic Development – Uses, Structures and Impacts*. New York: State University of New York Press.

Protect Our Local Economies (2011) *Stop The State's Redevelopment Proposal*. Sacramento.

Scott, Mel (1971) *American Planning Since 1890*. Berkeley: University of California Press.
Sokoloff, Larry (2012) "Affordable Housing Caught in Redevelopment Crossfire," California Planning & Development Report, 27(8):1(2).
State Controller's Office (2011) *Selected Redevelopment Agencies: Review Report – Analysis of Administrative, Financial, and Reporting Practices July 1, 2009 through June 30, 2010*. Sacramento.
Stephens, Josh (2012a) "Demise of Redevelopment to Remain Work in Progress Even After Feb. 1," California Planning & Development Report, 27(2):8(1).
Stephens, Josh (2012b) "Handful of Cities Refuse to Serve as RDA Successor Agencies," California Planning & Development Report, 27(2):9(1).
Woodbury, Coleman (ed.) (1953) *Urban Redevelopment – Problems And Practices*. Chicago: University of Chicago Press.