Restructuring Redevelopment:
Reviewing the Governor’s Budget Proposal

A Legislative Oversight Hearing

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

### Part One: Reviewing the Governor’s Budget Proposal

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1</td>
</tr>
<tr>
<td>The Governor’s Proposal</td>
<td>2</td>
</tr>
<tr>
<td>The Legislative Analyst’s Assessment</td>
<td>3</td>
</tr>
<tr>
<td>What Legislators Should Ask</td>
<td>4</td>
</tr>
<tr>
<td>Dissolving redevelopment agencies</td>
<td>4</td>
</tr>
<tr>
<td>Budget year effects</td>
<td>5</td>
</tr>
<tr>
<td>Out-year effects</td>
<td>5</td>
</tr>
<tr>
<td>Affordable housing effects</td>
<td>6</td>
</tr>
<tr>
<td>Measuring outcomes</td>
<td>6</td>
</tr>
<tr>
<td>Economic development alternatives</td>
<td>7</td>
</tr>
</tbody>
</table>

### Part Two: A Redevelopment Primer

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blight</td>
<td>8</td>
</tr>
<tr>
<td>Property Tax Increment Financing</td>
<td>9</td>
</tr>
<tr>
<td>Pass-Through Payments</td>
<td>11</td>
</tr>
<tr>
<td>Ubiquitous, Yet Concentrated</td>
<td>12</td>
</tr>
<tr>
<td>Affordable Housing</td>
<td>12</td>
</tr>
<tr>
<td>Statutory Time Limits</td>
<td>13</td>
</tr>
<tr>
<td>Time Extensions</td>
<td>14</td>
</tr>
<tr>
<td>Redevelopment Continues</td>
<td>15</td>
</tr>
<tr>
<td>Local Economic Development Alternative</td>
<td>16</td>
</tr>
<tr>
<td>Other Capital Financing Alternatives</td>
<td>17</td>
</tr>
</tbody>
</table>
Part One: Reviewing the Governor’s Budget Proposal

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

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

In recent days, a lot has been made of the proposed elimination of redevelopment agencies. Mayors from cities both large and small have come to the capitol and pressed their case that redevelopment is different from child care, university funding or grants to the aged, disabled and blind.

They base their case on the claim that redevelopment funds leverage other funds and create jobs. I certainly understand this because I saw redevelopment first hand as mayor of Oakland. But I also understand that redevelopment funds come directly from local property taxes that would otherwise pay for schools and core city and county services such as police and fire protection and care for the most vulnerable people in our society.

So it is a matter of hard choices and I come down on the side of those who believe that core functions of government must be funded first. But be clear, my plan protects current projects and supports all bonded indebtedness of the redevelopment agencies.

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

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

- What did the Governor propose for redevelopment agencies?
- What questions should legislators ask before acting on that proposal?
- What are the consequences of eliminating redevelopment agencies?
- What are the feasible alternatives?
Redevelopment has literally changed the way that California looks; mostly for the better. Tens of thousands of affordable housing units, hundreds of thousands of square feet of commercial and industrial space, and hundreds of public buildings exist inside redevelopment project areas today because of six decades of work by redevelopment officials.

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

- The state has a **substantive policy interest** in eliminating both physical and economic blight. No neighborhood should be left behind.

- The state has a **fiscal interest** in redevelopment’s success because the State General Fund subsidizes community redevelopment agencies’ projects.

For more than 60 years, redevelopment agencies have been major features on the fiscal landscape. Basic facts from 2008-09 sketch their importance:

- There are 425 redevelopment agencies; 399 are active.
- All cities with populations over 250,000 have redevelopment agencies.
- 94% of cities with populations over 50,000 have redevelopment agencies.
- 81% of all cities have redevelopment agencies.
- 31 of the 58 counties have redevelopment agencies; 26 are active.
- Redevelopment officials run 749 redevelopment agencies.

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

**The Governor’s Proposal**

Released on January 10, as part of the “Tax Relief and Local Government” discussion, the Governor’s Budget Summary proposed to:

- Dissolve community redevelopment agencies by July 1.
- Establish successor agencies to receive the property tax increment revenues.
- Give local officials alternative ways to promote economic development, including lowering the voter approval threshold for “limited tax increases and bonding against local revenues” to 55% voter approval.

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

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

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

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

**The Legislative Analyst’s Assessment**

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

- No reliable evidence that redevelopment agencies improve overall economic development in California.
- Redevelopment diverts property taxes from K-14 education and other local programs.
- Proposition 22 greatly constrains the state’s authority to redirect redevelopment property tax revenues.
The LAO found four strengths in the Governor’s proposal:
- Shifts responsibility for local economic development to local governments.
- Provides one-time General Fund relief.
- Shifts property tax revenue to core government responsibilities.
- Promotes transparency in future redevelopment activities.

The LAO’s document also noted five limitations:
- Many details need to be resolved.
- Redevelopment debt costs unclear.
- Rationale for increased school funding not clear.
- Disproportionate impact on some local agencies.
- Future responsibility for Low- and Moderate-Income Housing not defined.

The LAO posted this nine-page review on its website:

**What Legislators Should Ask**

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

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

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

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

*Will the successor agencies pay for redevelopment agencies’ debts other than bonded debt? What about redevelopment agencies’ contracts with property owners, such as disposition-and-development agreements and owner-participation agreements? What about loans made by the underlying cities and counties to their own redevelopment agencies?*
Will the successor agencies be the underlying cities and counties that created the redevelopment agencies or will they be new local entities which are composed of other local officials? Should county supervisors, school district trustees, and special district board members sit on these successor agencies?

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

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

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

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

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

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

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

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

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

Does the reallocation of billions of dollars in former property tax increment revenues create the opportunity for the Legislature to overhaul the intricate and uneven property tax allocation formulas?
Affordable housing effects. Bills affecting redevelopment agencies’ housing programs fall within the policy jurisdiction of the Senate Transportation and Housing Committee. Nevertheless, the Governor’s proposal raises questions about who will manage the Low and Moderate Income Housing Funds if redevelopment agencies dissolve.

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

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

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

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

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

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

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

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

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

What are the standards for measuring the successor agencies’ successes?
What are the time deadlines for the successor agencies to pay the principal and interest on the former redevelopment agencies’ debts?

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

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

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

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

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

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

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

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

Do local officials support easing some of the statutory limits on Infrastructure Financing Districts?
**Part Two: A Redevelopment Primer**

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

**Blight**

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

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

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

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

*Predominantly urbanized* means that at least 80% of the land in the project area:
- Has been or is developed for urban uses (consistent with zoning), or
- Is an integral part of an urban area, surrounded by developed parcels.

The four *conditions of physical blight* are:
- Unsafe or unhealthy buildings.
- Conditions that prevent or hinder the viable use of buildings or lots.
- Incompatible land uses that prevent development of parcels.
• Irregular and inadequately sized lots in multiple ownerships.

The seven *conditions of economic blight* are:

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

**Property Tax Increment Financing**

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

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

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

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

In 2008-09, redevelopment agencies received about $5.7 billion in property tax increment revenues. Applying the 2003-04 percentages to the 2008-09 revenues at a
statewide level, it’s possible to say that redevelopment agencies’ total property tax increment revenues consisted of:
   - $3.2 billion from schools
   - $1.2 billion from counties
   - $671 million from cities
   - $519 million from special districts

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

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

<table>
<thead>
<tr>
<th>Redevelopment Agencies’ Property Tax Increment Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
</tr>
<tr>
<td>1990-91</td>
</tr>
<tr>
<td>1991-92</td>
</tr>
<tr>
<td>1992-93</td>
</tr>
<tr>
<td>1993-94</td>
</tr>
<tr>
<td>1994-95</td>
</tr>
<tr>
<td>1995-96</td>
</tr>
<tr>
<td>1996-97</td>
</tr>
<tr>
<td>1997-98</td>
</tr>
<tr>
<td>1998-99</td>
</tr>
<tr>
<td>1999-00</td>
</tr>
<tr>
<td>2000-01</td>
</tr>
<tr>
<td>2001-02</td>
</tr>
<tr>
<td>2002-03</td>
</tr>
<tr>
<td>2003-04</td>
</tr>
<tr>
<td>2004-05</td>
</tr>
<tr>
<td>2005-06</td>
</tr>
<tr>
<td>2006-07</td>
</tr>
<tr>
<td>2007-08</td>
</tr>
<tr>
<td>2008-09</td>
</tr>
</tbody>
</table>

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

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

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

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

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

**Pass-Through Payments**

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

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

**Ubiquitous, Yet Concentrated**

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

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

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

Which are the top 10 redevelopment agencies in those categories?

<table>
<thead>
<tr>
<th>Tax Increment</th>
<th>Expenditures</th>
<th>Indebtedness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Los Angeles</td>
<td>1. San José</td>
<td>1. San José</td>
</tr>
<tr>
<td>2. San José</td>
<td>2. Los Angeles</td>
<td>2. San Diego</td>
</tr>
<tr>
<td>4. Oakland</td>
<td>4. Oakland</td>
<td>4. Los Angeles</td>
</tr>
<tr>
<td>5. Fontana</td>
<td>5. San Diego</td>
<td>5. Industry</td>
</tr>
<tr>
<td>6. Riverside County</td>
<td>6. Riverside County</td>
<td>6. Fontana</td>
</tr>
</tbody>
</table>

**Affordable Housing**

For over 30 years, state law has required redevelopment agencies to set aside 20% of their property tax increment revenues to increase, improve, and preserve the supply of affordable housing (AB 3674, Montoya, 1976).
The legislative responsibility for reviewing redevelopment agencies’ affordable housing programs falls within the policy jurisdiction of the Senate Transportation and Housing Committee, not the Senate Governance and Finance Committee. Nevertheless, legislators can’t appreciate redevelopment activities without understanding the basic requirements that redevelopment officials face.

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

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

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

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

Statutory Time Limits

Another key reform of the Community Redevelopment Law Reform Act of 1993 was the creation of statutory time limits. The 1993 Isenberg bill distinguished between older redevelopment projects and projects with plans adopted after the bill’s January 1, 1994 effective date.
The “effectiveness” of an older redevelopment project --- one with a plan adopted before January 1, 1994 --- must terminate 40 years after the plan’s original adoption or January 1, 2009, whichever is later. After this time limit, local officials have no further authority to carry out redevelopment activities under the redevelopment plan, except to:

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

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

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

**Time Extensions**

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

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

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

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

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

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

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

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

**Redevelopment Continues**

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

<table>
<thead>
<tr>
<th>Year Established</th>
<th>Project/Agency</th>
<th>Effectiveness Time Limit</th>
<th>Tax Increment Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>Western Addition No. 2</td>
<td>2009</td>
<td>Still receiving to replace housing</td>
</tr>
<tr>
<td></td>
<td>San Francisco</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>Merged Downtown</td>
<td>2021 &amp; 2024</td>
<td>2031</td>
</tr>
<tr>
<td></td>
<td>Sacramento</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>Pilot</td>
<td>2012</td>
<td>2022</td>
</tr>
<tr>
<td></td>
<td>Richmond</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>South of Market</td>
<td>2009, 2020 &amp; 2027</td>
<td>Still receiving to replace housing</td>
</tr>
<tr>
<td></td>
<td>San Francisco</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Effectiveness  Tax Increment
Established  Project/Agency  Time Limit  Time Limit
1959  Merger Project No. 1 Fresno   2022  2032
1959  Bunker Hill Los Angeles   2012  2022
1959  Merged Downtown Richmond   2012 in phases until 2035  2022 in phases

Local Economic Development Alternative

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

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

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

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

Until the Attorney General’s 1998 opinion, local officials were reluctant to form IFDs because they worried about the constitutionality of using tax increment revenue from property that was not within a redevelopment project area.
Because an IFD is legally separate from the city or county, it’s similar to a community redevelopment agency. Like a redevelopment agency, there is no constitutional requirement for 2/3-voter approval to form an IFD or to issue bonds. The requirement for 2/3-voter approval is not based on any constitutional requirement, but instead represents the political compromise that legislators struck in 1990.

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

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

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

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

**Other Capital Financing Alternatives**

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

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

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

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

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

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