NOBODY'S HOME:

REDEVELOPMENT AGENCIES AND AFFORDABLE HOUSING IN CALIFORNIA

A Thesis

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MASTER OF PUBLIC POLICY AND ADMINISTRATION

by

Robin Asia Finnestead

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Department of Public Policy and Administration

Abstract

of

NOBODY'S HOME:

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Robin Asia Finnestead

In 2011, Governor Jerry Brown proposed a budget that cut redevelopment agencies (RDAs), a large provider of funds for affordable housing in California's urban centers. Many groups opposed his proposal, but was RDA use of the Low-Moderate Income Housing Fund affecting the affordability of housing in California? This thesis uses a regression analysis to link two measures of housing affordability to supply and demand variables to determine if RDAs were making effective use of their funds.

Data for this thesis came from the Department of Housing and Community Development, and the 2010 U.S. Census. I used two measures of housing affordability, median housing values and percentage of households paying over 35% of income towards rent, and attempted to link them to supply and demand variables. The primary explanatory variables were the number of affordable housing units divided by the number of housing units in a city, and total expenditures divided by total housing units in a city. The explanatory variables were designed to explain the supply and demand of affordable housing.

My results indicate that RDAs were not affecting the affordability of housing in California. RDA expenditures did not significantly affect median housing values. There was a significant effect on percentage of households paying over 35%, however the coefficient was very small.

RDA LMIHF was not the only funding available for creating more affordable housing in California, but was one of the largest in the state, contributing about $1 billion annually. However, as the recession grew longer, fewer sources were available for creating affordable housing. Other studies have shown, and this study concurs, that funds were not used to their full effectiveness at all agencies; therefore, I would recommend that future policymakers make not only data reporting mandatory, but also effectiveness reporting, and create a system of data that is accessible and easy to use. Regular audits should further ensure the validity of data. HCD has collected data for years, but lacks the staffing to analyze the information, and therefore could not determine which agencies or types of expenditures were most effective. The agencies need to assure decision makers, recipients, and citizens that affordable housing spending is effective and efficient.

The dissolution of the RDAs and consequently the need for a new agency to control affordable housing funds is an opportunity to create a more effective program with better outcomes, and a more successful approach. The RDAs were not doing a sufficient job of increasing housing affordability in California. Their demise creates an opportunity to put affordable housing money to much better use.

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INTRODUCTION AND RESEARCH QUESTION

The main purpose of this thesis is to determine whether the presence of redevelopment agencies (RDAs) had an impact on the affordability of housing in California's urban areas. Additionally, it hopes to answer the question of whether or not California's RDAs were effectively fulfilling their missions to create and prolong the life of affordable housing. Were most agencies effectively using the Low-Moderate Income Housing Fund (LMIHF) set-aside, and did the set-aside create more low-income housing? These questions have been difficult to resolve. Given the recent dissolution of RDAs, it is important to seek some answers.

I will test two dependent variables for this study, *median housing values* and *households that are paying over 35% of their income towards rent*. Both are measures of housing affordability. The explanatory variables will describe the area characteristics, and RDA expenditure per housing units in a city. Using a regression analysis, it will link expenditures and results and will determine how RDA spending affected the affordability of housing in California.

In Chapter 1, I review the background of redevelopment agencies, and why RDAs have again become a topic of discussion. The budget crisis and redevelopment policies contributed to the dissolution of RDAs, and Governor Brown's 2012 proposed budget highlighted the need for reform to California's redevelopment program. Following the exploration of the history of redevelopment, I will give an overview of how redevelopment should have worked and its mission to relieve blight in urban areas, and why it was important. Finally, I will examine the data and collection methods that the State used to evaluate the progress of RDAs.

Organization of Remainder of Paper

Chapter 2 will review how redevelopment works in California. Chapter 3 will examine the relevant academic literature on redevelopment and economic incentives such as TIFs. In particular, I will discuss relevant regression studies that employ similar methodology as used in this thesis. Though there were few studies on the specific topic of California redevelopment, there are many on local economic incentives and a growing set of research on data collection for California RDAs. Generally, the literature agrees that local economic incentives do little to help grow economic activity. Chapter 4 will cover the methodology of my research and explain the statistical tools and methods I will use. Chapter 5 will explain the data and the methodology of selecting a model for the regression analyses. Chapter 6 will explore the findings, and whether or not they are significant, will discuss whether the model was a good fit, and discuss possible policy implications and further research potential.

Background and Need

Jerry Brown's reelection as governor in 2010 highlighted the need for a realistic budget that would put California's state and local fiscal situation back on track and away from cycles of boom and bust. Both gubernatorial candidates focused on the budget in the run up to the election, highlighting its importance. After the election, Brown moved quickly to create a proposed budget that made cuts to just about every department and agency, a necessary tool to balance the budget in a timely manner. The suggested cut to RDAs was highly controversial (Governor's Budget, 2011-2012 (2011), Sacramento Bee, 2011). Brown's proposed budget cut hundreds of RDAs; the redirected funds will go to cities, counties and schools. The resulting savings to the state would potentially be $1.7 billion (Governor's Budget, 2011; Sacramento Bee, 2011). Days before a potential budget vote, the State Controller's Office issued a report claiming that RDAs were "a breeding ground for waste, abuse, and impropriety" (Chiang, 2011; Lewis, 2011a). The report

reviewed 18 agencies and found many flaws, questionable payment practices, and inappropriate use of affordable housing money (Chiang, 2011; Lewis, 2011a). However, according to HUD, 12 million households are eligible for some form of affordable home assistance, and the 2010 Census reports that 14.2% of the California population was living below the poverty level in 2009.

RDAs were required to set aside 20% of their funds in a Low Moderate Income Housing Fund (LMIHF) to build and maintain affordable housing (§33334.2). The dissolution of RDAs eliminated the sources of these funds. However, the effect on housing affordability for the state is less concrete, and the inability of RDAs to highlight their successes hurt their image and therefore their ability to continue to have a positive impact on communities. Restrictions on property taxes have led to a permanent struggle by local governments to fund programs, and RDAs were a contentious and controversial expenditure.

The Budget

California, like many other states in the country, faces a continuing budget crisis. Revenues are too low, and spending is too high. The state faced a $26.2 billion structural budget deficit for fiscal year 2012, leading the Governor and Legislature to ask for extraordinary cuts, and extensions of special taxes (Siders, 2011). Each year the debate for potential programs cuts and possible tax increases creates a divisive discussion drawn clearly down party lines. The California electorate contributes to this conflict by demanding many services from the state government, without the willingness to raise taxes to help pay for them. Apprehension toward any tax increase manifested itself with the passage of 1978's Proposition 13. Further, the limits that this proposition placed on California's ability to raise revenue and the power of the "fourth house's" fears of taxation created a persistent and seemingly annual budget crisis. Gimmicks, backfills, and a general unwillingness to do what is necessary to solve the crisis have further

exacerbated the state's predicament. The intent of a budget is to forecast the coming year's revenues and expenditures, and California notoriously overestimates revenues (Mikesell, 2011). In the 2008-09 fiscal year, revenue collections were 20% lower than predicted (Gordon, 2010).

The pressure to find programs to trim led to the proposed cut to RDAs. The proposal led to heavy scrutiny for the redevelopment agencies, and the agencies found they had little data with which to defend themselves. The result is the phasing out of RDAs over several years, giving most agencies time to finish projects, and disclose and collect debts. The California Legislature acted to protect RDAs and affordable housing funds with AB 1X 26 (Blumenfeld, 2012) and AB 1X 27 (Blumenfeld, 2012), but the California Supreme Court declared AB 1X 26 unconstitutional, negating the need for AB 1X 27.

The Governor's Proposal

The Governor's proposed budget recommended that RDAs be dissolved by July 1, 2011, established successor agencies to receive property tax increment revenues, and would give municipalities an option to create alternative forms of economic development ("Governor's Budget," 2011). The successor agencies would continue to pay RDAs debt

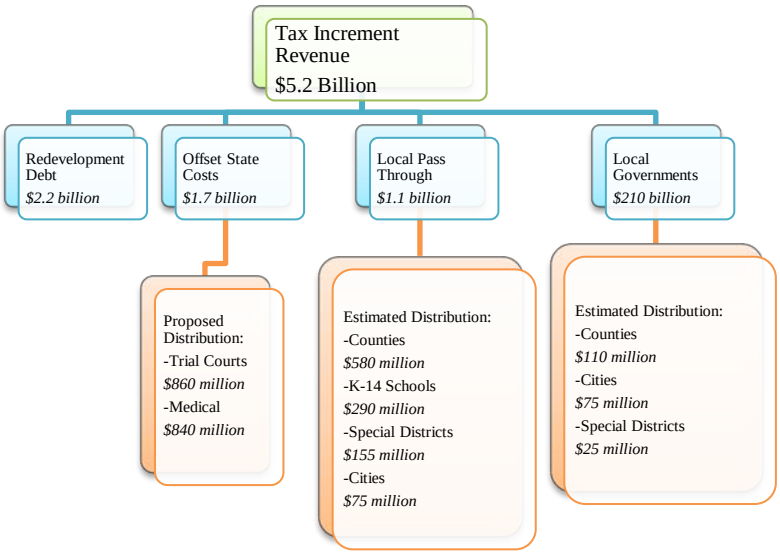

Figure 1 - Governor's Proposal for Redistributed Redevelopment Revenue

Source: O'Mallley & Whitaker, 2011

obligations, and schools and local governments will continue to receive their portion of the tax-increment revenue pass-through. Medi-Cal, trial courts, cities, counties, and special districts received the remaining funds. The proposal also suggested a reduction of the voter threshold to 55% for some "tax increases and bonding against local revenues." The Governor also proposed a shift to local housing authorities for the funds from the LMIHF. According to the governor's office, the proposed budget cut would save the state $1.7 billion (Sacramento Bee, 2011). The League of California Cities claimed the plan to dissolve agencies was unconstitutional, and mounted a campaign with the California Redevelopment Association (CRA) to oppose the proposal (Yamamura & Sanders, 2011). The Legislative Counsel Bureau agreed, and issued a memo to Republican State Assembly Member Diane Harkey questioning the legality of the move to take the redevelopment money to help balance the budget (Yamamura, 2011). The memo stated that California could not force local governments to send TIF funds to the state, and that the successor agencies are not a sufficient mechanism to comply with the constitution. The Department of Finance was firm in its belief that no breach of constitutionality had occurred, and that the proposal would be legally sound (Yamamura, 2011).

Lawmakers spent a great deal of time creating a deal regarding Redevelopment Agencies. The final output was that after the dissolution of RDAs, the legislature passed two companion laws simultaneously, AB 1X 26 (Blumenfeld, 2012) and AB 1X 27 (Blumenfeld, 2012). AB 26X eliminated RDAs, and created a process for the winding down of their activities (Senate Rules Committee, 2011a). AB 26X also established the successor agencies. The second bill, AB 27X, was contingent on the passage of AB 26X. AB 27X created an alternative, voluntary redevelopment program that would allow RDAs to continue to exist. Those agencies wishing to continue their work were required to notify the State Controller, auditor-controller, and the Department of Finance on or before November 1, 2011. A city or county would have collected

part of the TIF revenue. The city or county may establish a new RDA after the fulfillment of obligations and debts (Senate Rules Committee, 2011b). The California Supreme Court later ruled AB 1X 27 unconstitutional, negating the need for both laws (California Supreme Court, 2011).

Several pieces of legislation have moved forward to help provide affordable housing in California cities. AB 1585 (Pérez, 2012) received partisan approval in the assembly, garnering two more votes than necessary to beat the supermajority threshold for an emergency measure. If the Senate approves the bill and the Governor signs it into law, Low- and Moderate-income housing would continue to receive approximately $1.4 billion in redevelopment funds (Sanders, 2012). Local housing agencies would use the funding for affordable housing. The agencies must commit 80% of the funds within two years, and spend them within four years; otherwise, the money will return to the Department of Housing and Community Development for use on low-income housing programs.

Senators Mark DeSaulnier and Darrell Steinberg introduced SB 1220 (DeSaulnier, 2012), the Housing Opportunity and Market Stabilization (HOMeS) Trust Fund. The bill would impose a $75 fee on recordation of real estate documents to permanently fund the "development, acquisition, rehabilitation, and preservation of homes to low and moderate-income households" (DeSaulnier & Steinberg, 2012). The authors estimate that the fees will generate an average of $700 million per year for the Fund.

Current and Former Redevelopment Policies

The main purpose of redevelopment is to curb blight and give cities a flexible tool to make improvements in urban areas. Redevelopment has improved the appearance of California cities since their implementation in 1945. RDA work created public, commercial, and industrial

spaces, revitalized downtown districts, improved public infrastructure, and helped finance affordable housing (Fulton & Shigley, 2005).

California faced a stressed fiscal status, and Governor Brown's proposal to phase out RDAs was a reaction to the public's belief that the solution to the structural deficit problem was expenditure cuts rather than revenue increases. Baldassarre and Urahn (2010) studied public reactions in five fiscally stressed states: Arizona, California, Florida, Illinois, and New York. The study, conducted in Spanish and English, included over 5,000 respondents spread throughout all five states. The studies found that overall, respondents want leaders to work harder to control wasteful spending and deliver services more efficiently. Respondents also believe that health and human services and K-12 education are core function of state government and would be willing to preserve them even if it meant paying higher taxes. RDAs provide a part of the social safety net that people find valuable, however, redevelopment was on the chopping block because of past abuses.

Staff briefing papers (Adkisson, et al, 2010; Vogel, 2010) from the California State Legislature name two main ways that the state had an interest in redevelopment: substantive and fiscal. The state has a substantive interest in eliminating economic and physical blight to improve neighborhoods and livability to attract residents, and the state has an economic interest because the General Fund helps to subsidize RDA projects ("Restructuring," 2011). The impact of other policies, such as Proposition 13, also affects how RDAs act, and how local governments may use them.

The Positive Impacts

The purpose of RDAs was to positively influence local communities by creating better physical conditions in cities. The Legislative Analyst's Office 2011 analysis of the Governor's budget proposal found two positive outcomes of using redevelopment: TIFs are flexible tools that

improve specific areas, and RDAs create and maintain affordable housing. Most cities have other tools to create economic development, but redevelopment area projects are the easiest and most flexible. Other means of generating large sums of money to fight urban blight require issuing general obligation bonds or raising taxes, which would also require voter approval. Redevelopment requires neither of these conditions. The report gives an overview of how redevelopment and TIFs use property taxes, and gives an evaluation of the positive and negative impacts. The LAO 2011 report also notes that RDAs are by law required to set-aside money that must be spent on affordable housing. The agency may use the money to acquire land, construct or repair affordable housing units, provide rent subsidies to low- and moderate-income households, and maintain affordable housing units. Though there are many other options for funding affordable housing, RDAs are easily the largest source (O'Malley & Whitaker, 2011).

The Negative Impacts

Despite these positive impacts, the LAO reported that there were more negative than positive aspects to redevelopment. There is evidence that economic activity within a project area increases, yet numerous studies point out that it is less likely that the redevelopment projects create new jobs, but rather shifted the jobs or economic activities from other parts of the city (LAO, 2011; Byrne, 2010; Dye & Merriman, 2000; Anderson & Wassmer, 1999). Additionally, the RDAs are diverting funds that would have otherwise gone to local governments or K-12 education (LAO, 2011). Local governments prefer to use redevelopment to create new developments because the funds are low-risk, and do not create a raise in taxes. However, RDAs shift money that would have otherwise gone to these local entities to redevelopment. Localities have a state mandated minimum funding level for education, when RDAs shift that money away local governments must request emergency funding from the state, which further negatively impacts the state budget.

Proposition 13

Proposition 13 severely limits the ability of local governments to gain revenues, and RDAs in turn further divert funds from these bodies. Tax Increment Financing financed RDAs, money that would otherwise have gone to localities. Redevelopment officials argue that property tax increases are the result of private investments attracted by public improvements in project areas (Dardia, 1998).

Californians understandably love the protections given to them by Proposition 13. Grandma will never suffer an unaffordable tax hike on her home during her retirement when she is reliant on a fixed income, and any tax increases must meet with voter approval. The struggle between demands and revenues characterizes the difficulty of this state's budget process. The level of difficulty that would be required to change Proposition 13 is too terrifying for most politicians to tackle, and most choose to work around it with creative solutions and deny that a problem exists. In addition, California politicians, restricted by term limits, are unlikely to take politically risky moves. Most voters are not willing to pay more in property taxes even if it means higher taxes and fees in other areas. A PEW/PPIC poll measuring public attitudes found that most Californians would prefer to cut services before raising taxes (Baldassare & Urahn, 2010).

After Proposition 13 passed in 1978, California's ability to rely on property taxes decreased, and voters had signaled their unwillingness to increase taxes. Today California is more reliant on personal income and sales and use tax than property taxes, changing the way California gathers revenues (Wassmer, 2008; Gordon, 2010). Personal income, corporate, and sales and use taxes are highly volatile and subject to the health of the economy, whereas property taxes have historically been a more stable source of revenue (Wassmer, 2008; Gordon, 2010).

These restrictions on property taxes have led to a permanent struggle by local governments to fund programs, and RDAs have always been a contentious and controversial expenditure. RDAs were financed by property taxes that otherwise would have gone to localities. RDAs claimed they were valid recipients of those tax increases due to the improvements they made in the project areas (Dardia, 1998). Proof of their full impact, however, is difficult to obtain, and studies have shown that other forces could be contributing to rising property taxes. Since Proposition 13's passage, local governments receive some money from property taxes, but the mechanism and flow of funds has fundamentally changed (Dardia, 1998). Localities are now more dependent on sales tax revenues, or raises in property taxes for revenue; the only way to increase revenues is to create new sources of sales tax. Moreover, the only way to increase property taxes on existing property is to trigger a reassessment. Cities use this "fiscalization of land use" as a tool to create a financial resource to replace lost property tax revenues. Automalls, shopping centers, and commercial buildings are likely to create more sales tax revenue for a city, and additionally less public resources than a new housing development. Therefore, cities are more likely to use redevelopment to create new sources of funds.

Dardia (1998) and Chapman (1998) agree on how Proposition 13 altered the way local governments sought revenue. Both studies agree that Proposition 13 helped shape how RDAs function today.

Dardia's seminal redevelopment PPIC piece *Subsidizing Redevelopment* (1998) analyzes how Proposition 13's restrictions on tax revenues have obliged local governments to use redevelopment liberally to create sources of funding. He notes that more than half the RDAs in California were created after the 1978 passage of Proposition 13, which is important in exemplifying that cities realized that redevelopment was a way to create more revenue. However, this increased pressure on special districts and counties, as the RDAs frequently received the

share of property taxes allowed to local governments. In the ten years Dardia studied, the share of property taxes diverted to tax increment grew from 4.6% to 8%, and some aggressive RDAs accounted for as much as 18% of all property taxes. Dardia notes that because of the fiscal incentive to create redevelopment projects, cities define "blight" more liberally, and around half of California cities have between 11 and 30% of their land in redevelopment areas; another fifth of California cities have over 30% in project areas. It is unlikely, notes the author, that blight is so pervasive in California cities. Each city or county finds blight in a different manner, and Dardia considered the term more relative than concrete. Dardia's study covered 114 different agencies from 1978 to 1992 to judge how the RDAs affected cities. His study did not show an increase in economic activity, and in fact stated that overall, project areas were doing less well than cities as a whole.

In another 1998 paper from the PPIC, Chapman presents three unintended consequences of the passage of Proposition 13, including the fiscalization of land use together with the creation of RDAs and use of TIFs, the growth of overly complex financial techniques, and an increase in state control over local finances (Chapman, 1998). Proposition 13 reduced the amount of revenue from property taxes that a local government could receive, therefore land use decisions were examined not for the good of the overall community, but instead how they could generate revenues. Cities aggressively pursuing sales tax revenues compete for "big-box" retailers and car dealerships in lieu of residential developments. Chapman justifies this with a little historical perspective; in the 1950s, California was the first state to use TIFs as a development tool. The TIF's popularity as a tool to fend off fiscal anxieties only grew; until 1993 blight was very loosely defined, redevelopment debt did not require voter approval even for new infrastructure, and redevelopment can help cities compete for revenue generators. Chapman notes that because of the transaction costs involved in luring a company to a city that this usually creates a zero sum

game. Proposition 13 also created a series of increasingly complex financial techniques, which has led to difficulty in reporting and tracking, and creates questionable reliability. Legislators intended AB 8 to be a short-term state tool that bailed out jurisdictions in need of help after Proposition 13 was established. However, over time local governments felt the provisions were entitlements rather than bailouts. Property taxes and a per-student state-minimum contribution traditionally funded K-12 education; but after Proposition 13's passage, spending per student slowed below even the national average. Chapman cites the Serrano decisions, AB 8, Proposition 98, and Proposition 111 have all created increasingly difficult formulas to fund schools; but after the passing of Proposition 13, schools no longer have the ability to raise property taxes and are increasingly reliant on state aid. The shift of financial control from local governments to the State is Chapman's final major unintended consequence. The state now has more control over the distribution of property taxes.

The conclusion of both these pieces is that Proposition 13 was a popular if blunt tool, which created unintended severe financial consequences for the State of California. Despite some positive impacts such as curbing urban blight and creating affordable housing, local governments increasingly use redevelopment as a tool to boost revenues after restrictions on property taxes from Proposition 13. RDAs and TIFs created successful new revenue sources for local governments. Other policies have affected how redevelopment works, though not as strikingly as Proposition 13, Appendix A briefly describes some of these policies.

The 1993 Reforms (AB 1290)

Redevelopment is a key tool for municipalities to increase revenues, and for the most part, reduces blight in urban areas with good results. However, some agencies were abusing the definition of blight, and accused of hoarding the funds in their affordable housing set-asides. As

a result, the Legislature used those funds to balance the state budget two years in a row. The CRA reacted by creating and sponsoring AB 1290 (1993) to reform RDAs.

The result of the reform legislation was:

- A more specific definition of "blight,"
- Set specific time limits for new and continuing projects (SB 211 in 2001 extended these time limits for some agencies, though the agency must renew its finding of blight, and increase its set-aside for affordable housing),
- Penalties for not using the LMIHF in a timely manner,
- Authorized affordable housing to be built outside the project area,
- Prohibited the creation of a sales tax to fund the redevelopment projects,
- Allowed facility or equipment financing,
- Provided a guaranteed pass through for all affected localities, consumed about 1/6 of RDA revenues.

Redevelopment agencies and the LMIHF are affected by a variety of laws and court rulings in an attempt to clarify how RDAs can determine blight and use the affordable housing funds. A summary of these policies and rulings appears in Appendix B.

Chapter 2

HOW REDEVELOPMENT WORKS IN CALIFORNIA

Redevelopment started as a means to curb urban blight, but has become a technique for local governments to correct private market failures (Man and Rosentraub, 1998), bid for businesses (Anderson & Wassmer, 2001), or to imitate neighboring communities (Anderson & Wassmer, 1999). California was the first state to use TIFs, and since their creation, the RDAs have grown rapidly. Detwiler notes in his 2011 "Restructuring Redevelopment" briefing paper that:

- There are 425 redevelopment agencies in California, 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.

The Legal Requirements

The California Redevelopment Law (CRL) (§33000) requires that 20% of tax increment revenue must be set aside for affordable housing. Though the 20% requirement has been in place since the 1970s, there were loopholes and escape clauses to avoid fulfilling this constraint. The legislature and legal rulings from courts have closed these loopholes over time, particularly as the demand for affordable housing increases.

Redevelopment funds a broad range of projects from downtown revitalizations to affordable housing. RDAs usually fund projects in conjunction with a private developer or other government sources such as HUD. In addition to the LMIHF set-aside, state law requires RDAs to "pass through" to other agencies a portion of the tax increment revenues (O'Malley &

Whitaker, 2011). The intent of the pass-through is to offset the loss of property taxes to other local agencies such as counties, K-14 schools, special districts, and cities. Statewide, these agencies pass through about 22% of the tax increment revenues (O'Malley & Whitaker, 2011).

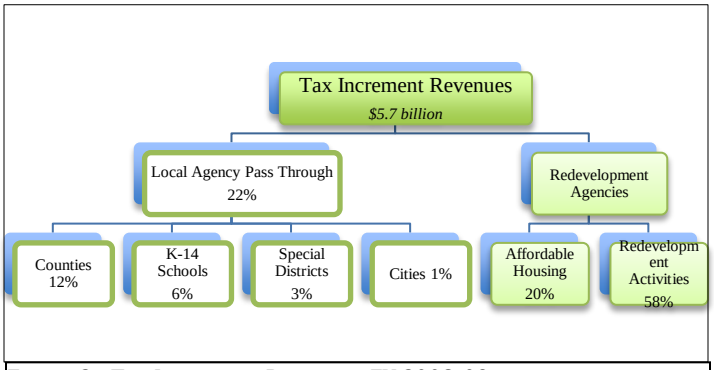

Figure 2 - Tax Increment Revenues FY 2008-09

Source: O'Mallley & Whitaker, 2011

However, low-income housing projects are unpopular with the public. Politicians who support redevelopment projects find it difficult to later support housing projects and maintain their electability (Fulton & Shigley, 2005, p. 276). After many of the loopholes closed, numerous RDAs simply did not spend the money, and later the Legislatures accused them of "hoarding;" and as a result, the State Legislature frequently raided these funds to close budget gaps (Fulton & Shigley, 2005, p. 277). RDAs claim that it takes time to piece together financing, acquire land and get projects to break ground (Dardia, 1998). Though this may be true, HCD audits have shown that most agencies do not spend their housing set-asides appropriately (Fulton & Shigley, 2005; Yang, 2007). Some overspend on planning and administration; others run emergency shelters rather than producing permanent housing (Fulton & Shigley, 2005, p. 278; Yang, 2007).

Blight

The roots of redevelopment are in urban renewal to tackle blight. State law dictates that blight must be so substantial that "it constitutes a serious physical and economic burden on the community" (Fulton & Shigley, 2005, p. 265). Before the 1993 reforms, some localities abused the poor definition of the term "blight"; agencies found blight in areas simply prone to flooding,

or blight was discovered in areas such as a private country club golf course (Fulton & Shigley, p. 266). The 1993 reforms, among other changes, narrowed the definition of blight to the following characteristics:

- Blighted areas must be predominantly urbanized (80% urbanized)
- May consist of one or more of the following *physical* conditions:
    1. Buildings that are unsafe or unhealthy to work in,
    2. Conditions that prevent viable use of buildings or lots,
    3. Incompatible nearby land uses,
    4. Subdivided lots owned by multiple owners.
- May consist of one or more of the following *economic* conditions:
    1. Depreciated or stagnant property values,
    2. Impaired property value due hazardous wastes,
    3. Abnormally high business vacancies,
    4. A lack of necessary neighborhood businesses (such as grocery stores),
    5. Residential overcrowding,
    6. Excessive bars, liquor stores, or adult oriented businesses,
    7. An unusually high crime rate.
- Inadequate public improvements
- Inadequate water or sewer facilities
- Government owned housing built before January 1, 1960 (California Health and Safety Code §33030-§33031)

However, community activists and organizers claim the razing of older development projects including slums is unnecessary, particularly if cities or counties do not intend to build affordable housing to replace the lost units.

Redevelopment Agencies and Affordable Housing

Redevelopment is a complicated issue. Some agencies are successful and efficient at providing blight relief and affordable housing, while others abuse their funds. Additionally, TIFs are financially and logistically complex. Citizen groups tend to oppose redevelopment projects based on past misuse, though businesses are happy to receive RDA subsidies. Most of the controversy surrounding RDAs revolves around their funding practices using TIFs. The research surrounding TIFs tend to find mixed results on whether or not project areas have seen an increase in property values, property tax revenues, or economic activities that would not have occurred without the RDA. RDAs set a cap on project areas deemed "blighted," and collect any increase in property taxes by the agency to renew an urban environment, usually through infrastructure construction and building demolition paid for by bonds financed by debt funded by tax increment. Law sets 20% of the TIF set aside for affordable housing, whether it is for new construction, acquisition, or maintaining old housing stock.

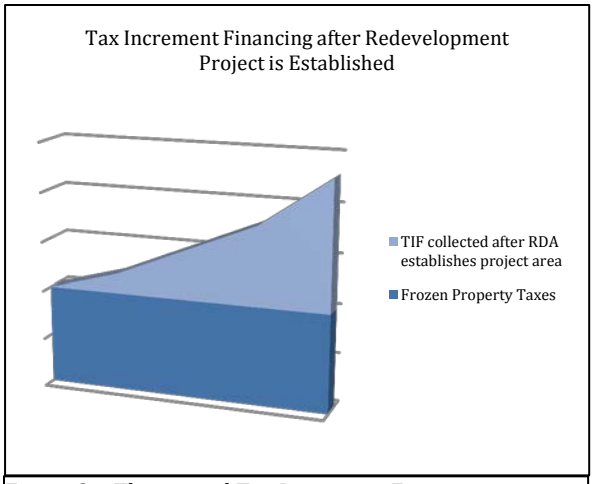

Figure 3 - Theoretical Tax Increment Financing

Source: O'Mallley & Whitaker, 2011

After the Governor had laid out his proposed budget, the State Controller's Office (2011) studied 18 redevelopment agencies for FY 2009-2010. The goal of the study was to quickly review the use of Low-Mod funds at each agency to determine their compliance with administrative, financial, and reporting requirements. The Controller's Office reviewed financial statements, redevelopment reports, ledger balance reports, plans, and budgets, interviewed employees, and analyzed accounts. The office used data from the Legislative Analyst's Office

and the California Redevelopment Association. The Controller also identified how agencies determine "blight," and evaluated compliance with reporting requirements. All 18 agencies had made deposits into the LMIHF. However, five of the studied agencies had failed to make deposits to their Supplemental Educational Revenue Augmentation Funds (SERAFs), a failing of $33.6 million. Upon further review, State Controller Chiang found three more agencies that had failed to deposit $7.1 million into the SERAF. This oversight forced the state's General Fund to backfill over $40 million to meet minimum education funding levels. Additional findings included the LMIHF funds use for "ineligible" purposes, and questionable charges made to RDAs. All 18 agencies had reporting deficiencies, audits that failed to identify major errors, and not all required information was in auditor reports. Chiang also noted that under current legal conditions almost anything would constitute blight. Based on this report and its own study, the LAO report (O'Malley and Whitaker, 2011) supported the Governor's proposal to dissolve California's redevelopment program.

A Need for Affordable Housing

The U.S. Department of Housing and Urban Development (HUD) defines "affordable housing" as housing with units with rent or price restrictions in place to maintain affordability (HUD, 2011). California defines low-income housing as being affordable to households with less than 80% of the county's median income; moderate-income housing is defined as being affordable to households in the range of 80 and 120% of the median income (Fulton & Shigley, 2005). HUD (2011) estimates that over 12 million households pay over 50% of their income on housing and further states that a household with one full time worker working at minimum wage cannot afford a fair-market two bedroom apartment anywhere in the United States.

The LAO (2011) found two ways that RDAs have positive impact in communities: through use of TIFs as a flexible tool that localities use to improve specific areas, and through the

creation and maintenance of affordable housing. Agencies may use the set-aside to use the money to acquire land, construct or repair affordable housing units, provide rent subsidies to low- and moderate-income households, and maintain affordable housing units. RDAs are the largest source for funding affordable housing in California (O'Malley & Whitaker, 2011).

However, the same LAO report found that RDAs have more impact that is negative in their communities. Though the CRA claimed that RDA projects increase employment, numerous studies have found that the increase is negligible because the jobs have merely shifted from one part of the city to the other; or has increased migration into the area, therefore negating a decrease in the rate of employment (Anderson & Wassmer, 1999; Anderson & Wassmer, 2001).

Two Systems of Data Collection

There is no single agency providing oversight to California's RDAs (Vogel, 2010). Most RDAs report to local governments such as city councils or county boards, and the state of California merely collects and reports data (Vogel, 2010). The California Department of Housing and Community Development (HCD) collected data on housing production before 1984, but fewer than 50% of the agencies submitted numbers, and the agencies did not publish the data. The State Controller collects financial data, and publishes the data as part of a special districts report (Vogel, 2010). The legislature made some efforts to correct this problem, but results have been inconsistent.

Today, the Controller's office collects and publishes data on RDAs' revenues, expenditures, debt, land acquisitions, and briefly shows how the LMIHF is used. The Controller's office reports focus on overall financial status, are set up to follow accepted accounting principles, and are vague about the LMIHF (Vogel, 2010). Additionally, requests for raw data not published in the report are available, but the office charges for the labor required assemble them.

The HCD report focuses solely on the LMIHF, and the production and maintenance of housing (Vogel, 2010). The last revision to the questionnaire was over a decade ago, was created to cater to non-accountants, and is available online though not every RDA submits the report electronically (Vogel, 2010). Over the past few years, the HCD is not able to audit these reports due to lack of staff; so, despite the fact that they are annually published and available online, they are riddled with flaws such as double counting, incorrect classifications of how funds are used, and simple human errors (Cataline & Finnestead, 2011).

RDAs contend that both reporting systems are difficult to use, complex, and duplicative (Vogel, 2010). HCD employees note that though they have training courses conducted by certified public accountants (CPAs), it is frequently the newest member of the RDA staff assigned to filling in the online reports (Cataline & Finnestead, 2011). Due to quickly rotating staff members, it is rare for the same person to fill out the form more than once, and training on this reporting system is rare for new staff (Cataline & Finnestead. 2011). These separate reporting systems, in the end, produce differing numbers for the LMIHF that range from hundreds of millions to billions of dollars (Vogel, 2010). Therefore, it is difficult to make a realistic estimate of how much money the RDAs are setting aside in their LMIHFs, and how the funds are used.

HCD focuses its data on the LMIHF, while the State Controller reports on an agency's overall expenditures. The data is difficult to use because HCD and the Controller come up with different accounts of funds. Reporting errors, difficulty in using the reporting systems and frequently double counting contribute to these problems. Due to budget constraints, both offices have limited personnel, and neither office have available staff to regularly audit the data they collect.

Vogel (2010) recommended that the state create an audit program would publish the audits annually. The audits would allow the State to identify agencies that are not using affordable housing money promptly, or are running high “planning and administration” costs. Additionally, Vogel recommends an overhaul of the RDA data collection system, and the Controller’s guidelines updated to increase agencies’ ease of use with both systems.

Chapter 3

A REVIEW OF THE LITERATURE

Governor Brown's proposed budget in February 2011 threw a spotlight on redevelopment agencies and the Low and Moderate Income Housing Fund (LMIHF). Governor Brown wanted a quick resolution to the budget deficit, and certainly wanted to avoid another tardy budget. The LAO and State Controller's Office each responded with a study of RDAs and released their findings; the LAO reported more generally on an overall status of redevelopment, and the Controller's report focused on 18 specific case studies. The California Budget Project (CBP) (2011) issued a literature review gathering research on redevelopment, economic incentives, and policies that have affected redevelopment.

Redevelopment agencies are on the verge of dramatic changes to their future role. To better understand and frame how my results fit within the existing research, it is essential to review the relevant academic and regression-based literature. I gathered numerous articles on housing prices, affordable housing, redevelopment in California, the effect of TIFs, and how redevelopment officials use their Low-Mod fund. In Appendix C to this report, you will find a summary table of the literature.

There is little in the way of research on the direct outcomes of TIFs or RDAs on affordable housing in California. However, there is a rich collection of the effects of TIFs on economic development, how RDAs work in California, and a growing collection of writing on how RDA's Low-Mod funds are being spent. There have been some attempts to collect and analyze data available to the public; however, they are relatively new and untested, and tend to be incomplete because of difficulty in obtaining data. Therefore, the literature review will focus on three main themes:

1) Housing values and affordable housing in California,

2) Whether or not TIFs and other local economic incentives are effective at increasing economic activity for a region, and

3) How California RDAs spend their Low-Mod Funds.

Housing Values and Affordable Housing in California

Despite fluctuations in the housing market, the value of California housing rises faster than the national cost. In some coastal areas of the state housing prices increased by 60 percent from 2003 to 2006 (Quigley and Raphael, 2005). In the highest quintile of cities, home values increased 30 percent per year in the same time (ibid). The U.S. Census reports in 2000 the national average home price was $208,000 (December), while in California, the average home price was $211,500. The Census further reports in August 2011 the national average price for a home was $210,900, and the national median was $204,400. Zillow.com reports that the average California home at the same time was $313,000. Though the value of a California home is down significantly from the 2006 average of $515,000, the value of homes in the state remains higher than the national average (Zillow, 2011). While housing prices skyrocketed and plummeted, incomes in California did not increase at the same rate. Though California median income was much higher than the national median, home values were also significantly higher. Table 3.1

Table 3.1
Median Home Values and Incomes for California and Nationally

Year	Median Home Value - California	Median Home Value - National	Median Income – California****	Median Income – National****	Ratio Median Income: Median Home Value - California	Ratio Median Income: Median Home Value - National
1990	$249,900 *	$101,100 *	$33,290	$29,943	13.32%	29.62%
2000	$211,500*	$119,600*	$46,816	$41,900	22.14%	35.03%
2005	$524,020**	$234,208***	$51,755	$46,326	9.88%	19.78%
2010	$370,900****	$179,900****	$57,708	$50,046	15.56%	27.82%

**Source: US Census Bureau, adjusted for 2000 dollars*
***Source: California Association of Realtors*
****Source: US Census Bureau, non-adjusted*
*****Source: 2010 US Census Bureau*

shows that California median incomes were much smaller than the national ratio of median incomes to median housing values.

California was among the hardest hit states when the housing bubble burst. Housing prices fluctuated, construction fell, and unemployment and foreclosures rose. In Table 1, above, the median California home value rose in the mid-2000s, but dropped dramatically by the end of the decade. However, median incomes have not matched the rapid increase of home values in the state. Commercial and residential households are willing to pay more to be in California; yet, the resulting higher prices have created an arrangement that is unaffordable for many households and small businesses.

The PPIC issued several pieces on California's housing issues. Kolko (2010) analyzed data from the American Community Survey and the Federal Housing Finance Agency to draw conclusions regarding California's immediate and long term housing challenges. The author found that though California housing prices fell 43% from their peak, and have remained at "pre-bubble" lows, housing prices remain high compared to the national average, and there are fewer vacancies, creating a "tight" market. California vacancy rates are among the lowest in the country. Foreclosures remain high with 32% of mortgaged residential properties "underwater," only Arizona and Nevada had higher foreclosure rates. Despite these lowered prices, new construction and vacancies are low, and the tight market keeps housing prices high. Thus, households are paying 1.8 times the amount of average housing costs in California in comparison to the national average.

Johnson's (2008) "Just the Facts" sheet, based on 2006 American Community Survey data, noted that 53% of Californians spend more than 30% of their income on housing, more than any other state. The 30% threshold is an affordability measure created by HUD. Johnson states that the high housing costs are particularly difficult for renters, the poor, and new homeowners.

In December 2005, HCD noted in its memo on California's deepening housing crisis, that only 14% of households in California could afford to buy a median priced home at $548,430, while nationally affordability was at 49% (the U.S. Census reports that the national median home price was $238,600 in December, 2005). These figures are from before the housing crash, and housing prices have since dropped while median incomes have risen. The ratio of median income to median housing value increased, and therefore somewhat increased affordability.

The non-profit California Budget Project regularly publishes a report analyzing how California deals with the budget crisis and how it affects housing affordability in the state. The 2008 version of this piece (before the large fall in housing prices) also states that home ownership prices exceed what most Californians can afford, and many homeowners are now facing foreclosure. California also has the second highest number of renters at 41.6%, and the second highest rental housing costs. The CBP states that a minimum wage worker would have to work 83 hours (at the current minimum wage of $8 per hour) to be able to afford the fair market rent of $868 for a studio apartment. According to the CBP, federal programs such as Section 8 have not kept up with demand, and federally subsidized units may be lost when programs expire. The paper proposes that the state should increase the amount of affordable housing, help homeowners who face foreclosure, and reduce homelessness by addressing these housing and other service needs.

Mulherin's 2000 analysis examines the increase in poverty amongst white (non-Hispanic) Americans and corresponding decrease in the supply of affordable housing. The report studied 100 metropolitan areas between 1980 and 1990, using data from the U.S. Census. The author notes that low-income apartments are generally located in central-city areas, and though communities remove some units from the market due to physical deficiencies, owners remove many units because of rising repair and maintenance costs that the owner would prefer to avoid.

In the meantime, the population of poor non-Hispanic whites in low-income neighborhoods grew 141% during the time period studied. In comparison, the population of blacks in these same neighborhoods grew 49%. The regression analysis positively correlated increasing concentration of affordable housing units with increasing poverty at the 1% significance level, the opposite of what the author expected. However, he notes that most other studies calculate levels of affordable housing using higher incomes than those of in poverty. The study did not include suburban communities and focused only on the largest growing population of poverty.

O'Sullivan (2009) tells us that growth controls reduce housing production, and therefore raising housing prices. Housing is durable, but over time, houses can lose quality and value to deterioration. Households can choose to maintain their homes or move to higher quality housing. High-income households tend to purchase the bulk of new housing, leaving slightly used but still high quality homes for middle-income households' to purchase. Thus, any restriction on building new housing would decrease high-income households consumption of new housing, leading to higher prices and fewer homes filtering down to lower income groups at prices they could afford. Therefore, O'Sullivan states that growth controls lead to lower quality available housing and higher prices, meaning fewer high quality houses will be vacated for filtering to middle-income households.

Quigley and Raphael (2005) further explore the reasons why housing is so expensive in California. They posit that California's extensive land-use laws and residential construction were the causes for the high cost of housing in the state. The authors also state that tax policies, such as Proposition 13, incentivize building retail development rather than moderately priced housing, and discourage housing construction. Their regression analysis studied the connection between land-use regulations, growth in available housing stock, and urban housing prices in California. Using a city-level index of regulatory stringency, they related housing values to levels of

regulation in California's cities in 1990 and 2000. The results indicate that at a statistically significant level, that owner-occupied home price increased 3% in 1990, and 4.5% in 2000 for each additional regulatory measure. Rental housing prices increased in smaller increments though the results remained significant. Therefore, the authors conclude that increasing land-use regulations does increase housing costs, and that new construction is lower in cities with more regulations.

O'Sullivan's (2009) filtering model states that there are two basic factors in housing selection, quality of housing and income level. High-income households tend to consume newer, higher quality housing. As new housing is constructed, high-income households will vacate this housing, leaving behind a high quality, used home. Consequently, a middle-income household could purchase the home. In turn, as middle-income families vacate their homes lower-income families will be able to purchase these houses. After some time, when the housing quality has been completely diminished the house will be removed from the market.

Matlack and Vigdor's 2008 piece focused on how increases in income for the high-income households affect housing consumption for the poor. Using micro data from the 1970, 1980, 1990, and 2000 U.S. Census they determined that, unsurprisingly, a reduced income leads to less housing consumption and less income to use on non-housing consumption. The inequality was more prevalent in a tight housing market, when the rich got richer the poor did worse. However, in a looser housing market when the rich did better the poor also benefitted.

Affordable housing is a component of a social safety net in a state where housing costs are high, and vacancies are low. However, affordable housing is not popular with politicians, communities, or local governments. Most local officials would prefer to use redevelopment money as a way to grow economic activity and revenues.

Local Incentives and Economic Activity

Local governments offer economic incentives to encourage the location of commercial and manufacturing companies within their borders. Profit maximizing businesses respond to them if the incentive effectively raises profits as compared to an alternative community with or without a similar incentive. Tax increment financing is one such incentive.

California was the first state to use TIFs, solely to curb urban blight by improving public spaces. TIFs did not become a primary funding source for economic development until the 1970s (Man and Rosentraub, 1998). Cities usually offer economic development incentives to correct market failure, upgrade blighted areas, to win bidding wars to bring new commercial enterprises into an area, and because local governments may be able to pass the costs on to another level of government (Dye and Merriman, 1999). Though Chapman (1998) notes that these incentives play out to be zero-sum games for communities and have created unintended consequences such as the fiscalization of land use, several studies use regression analysis to measure the actual change in economic activity for the area. Few results show a growth in economic activity or employment. However, most models did show economic incentives shift jobs from another part of the city, and redevelopment projects bring a focus to areas where a shift in employment may be a boon.

O'Malley and Whitaker (2011) defend the conclusion that the job shift occurred in California RDAs in their analysis of Governor Brown's proposal to dissolve redevelopment agencies. Drawing from the academic literature on the topic, they conclude that property values are minimally affected, and while there is economic growth within the redevelopment area, there is little evidence to suggest any growth for the region. However, a shift in employment within the

city can be valuable to a low-income person in a redevelopment area who may have limited access to quality employment. Therefore, the job shift is valuable to the city.

Though there is limited academic literature on the topic of local economic incentives affect on economic growth in California, two studies modeled the effect in Detroit. Anderson and Wassmer in two papers (1999 and 2001) found that instead of increasing employment in economic development areas, more residents moved into the project area, effectively reducing employment rates. Anderson and Wassmer (1999) conclude in their first piece that local governments are more likely to offer economic incentives such as property tax abatements, Tax Increment Financing Authorities (TIFAs), or a Downtown Development Association (DDA), if they are closer to a metropolitan area already doing the same. Anderson and Wassmer (2001) studied 112 communities in the Detroit Metropolitan Area to determine if the lost tax revenue justified the economic development of the areas. The study focused on four measurements of economic development: residential employment rates, poverty rates, manufacturing property values, and commercial property values. The authors found that increases in commercial activity and property value increased employment but also increased migration into the area. The increases in commercial activity or manufacturing, and property values result in a lower poverty rate; there was no statistically significant effect on property values; and property tax abatements never positively influenced commercial property values, but TIFAs and DDAs did have some positive impact.

Dye and Merriman come to similar conclusions in their 1999 study on the effects of TIFs on economic development. The authors analyzed data from 235 municipalities in the Chicago metropolitan area. The data included information on TIF status, fiscal structure, community type, and location. The regression analysis shows that the municipalities that adopted TIF practices grew more slowly that those that did not. Though there was some increase in property values in

the project area, a decrease in value elsewhere in the city offset it. The authors therefore concluded that TIFs, adopted with the intention of stimulating property value and increasing economic activity, instead cost the cities that adopt the policies.

One of the few studies that found a positive correlation between TIFs and economic activity was Man and Rosentraub's 1998 study of the effect of TIFs on property values in Indiana municipalities between 1980 and 1990. The authors noted that local governments adopt TIFs to correct private market failures, to "bid for businesses," and to imitate neighboring communities to negate the incentive to move into one community over another, citing many of the studies referred to in this review. Man and Rosentraub found positive correlation between property values and TIFs, particularly after the first year. Cities that adopted TIFs saw an 11% growth in property values as compared to cities that had not. The CBP (2010) suggested that the authors did not take into consideration that cities with fast growing tax bases tend to adopt TIFs, and therefore the study reflected what would have happened without the policy.

A study in the same region by Byrne (2010) led to similar conclusions. Using data from the Illinois Department of Employment Security and the Department of Commerce and Community Affairs from 1981 through 1999, the study explored TIF's impact on municipal employment growth in municipalities in the Chicago metropolitan area over 25,000. The study found that, like property values, TIFs shift employment from within the municipality to the project area rather than increase overall employment. Additionally, there was no positive impact on property values anywhere within the studied cities.

TIFs are a flexible tool that local governments prefer to use to avoid votes on tax increases, are less risky, and promise better returns than General Obligation Bonds. TIFs are also popular tools throughout the country to increase economic activity.

Overall, these reports echo the sentiment of the LAO's review. Redevelopment projects do not significantly increase employment, economic activity, or property values in California. However, redevelopment and TIFs have been successful in shifting job opportunities to parts of urban areas that want an increase in employment. If RDAs shift regional employment activity, they may also increase the number of job seekers in the area, and increase the number of housing seekers. Some further studies indicate how the RDAs are using their Low-Mod set asides to determine if the agencies were fulfilling their mission to build and maintain affordable housing

How Agencies Use the LMIHF

State law requires that all agencies set-aside 20% of their revenues into a LMIHF to build and maintain affordable housing (§33334.2). The agencies can use the funds for new construction, acquisition, or maintaining old housing stock in addition to some other uses. Recent reviews of how RDAs use their Low-Mod Funds reveal that despite closing many loopholes about how and when an agency must use these funds, some agencies are not using the money appropriately.

Yang (2007) studied how individual agencies use their Low-Mod funds based on data from HCD. She identified agencies that consistently spent 100% of their affordable housing funds on "planning and administration" from FY 2000-01 through 2004-05. The study found that five RDAs consistently spent 100 percent of their Low-Mod funds on planning and administration. However, fewer than 10% of agencies spent 100% of their funds on planning and administration. Yang's piece inspired legislative staff to further scrutinize RDA Low-Mod expenditures. Two pieces from Legislative staff found similar results. Both reports examined the reporting systems, data, and audits.

Vogel (2010) further examined expenditures of 12 randomly selected RDAs using data from HCD FY 1995-96 through 2007-08. Adkisson, Hill, Korber, and Vogel (2010) examine the

same information and offer a shorter version of Vogel's longer piece. Vogel determined that taxpayers and state government have no assurance agencies use the Low-Mod fund appropriately. Additionally, the report noted recording spending of Low-Mod funds is notoriously poor. Data reporting systems from the HCD and the State Controller's office are different, difficult to use, and employees are not trained on how to report the information. The state law poorly defines "planning and administration" duties, and agencies frequently ignore or bypass the definition. The agencies no longer audit the reports, and audits that are completed are frequently messy and incomplete. Some RDAs have even used Low-Mod funds in illegal ways such as hiring a lobbyist, or code enforcement. Both reports recommend an overhaul of both reporting systems, and oversight from a state agency.

Christiensen, Garrison, Minkoff, Poindexter, and Smith of the *Los Angeles Times* (n.d.) used HCD data on the Low-Mod Fund to determine how RDAs spend their money. They created a data set with total money spent for eight fiscal years it covers. The report came to no conclusions; instead, it created warning signs and listed agencies that had failed to develop land within five years, those that spent over 50% of their budget on planning and administration, and if the agency had spent over $100,000 with no units built. Though this presentation is a helpful study in finding red flags, RDAs should use their data to also show successes where they have them.

Advocates of affordable housing were highly alarmed by the Governor's budget proposal, and immediately defended the affordable housing money. However, it was difficult for housing advocates to come to a consensus about what the message to the Capitol should be. Should they save RDAs, or only the affordable housing fund? A non-profit advocate for affordable housing, Housing California, decided to study the problem using available data. Researchers immediately became aware of the same problems Vogel (2010) and Adkisson, et. al. (2010) had encountered.

The data are difficult to approach and use. Though the information is available to the public, it is difficult and, in some cases expensive, to access. Researchers spent hours at HCD learning to understand and analyze the data. The authors determined that both the HCD and the Controller's Office need more transparent methods for public data access, to overhaul their collection methods, and to consolidate their reports. Easier access to available data could help not only non-profit groups, but RDAs would be able to highlight their successes and struggles more accurately.

Conclusion

The literature shows that California's housing market is "tight," with high rents and low vacancies. Median income to median housing ratios in California exceeds the national ratio, creating a housing market that is difficult for renters, the poor, and new homeowners. Foreclosures and unemployment remains high. Housing values remain high, though they have declined since the beginning of the recessions, and Californians generally spend more on housing than the national average. With the tight market, fewer high quality houses are vacant or made available to middle- and low-income households. Additionally, growth controls and land use regulations help to increase housing prices. Local economic incentives such as TIFs do little to increase property values, economic activity, or employment within a region, however some studies show that they do shift jobs to areas that need them. The newly emerging literature shows that the Low-Mod fund is for the most part appropriately used, however some agencies have clearly abused the fund. Most studies suggested that increased transparency, better auditing systems, and a single reporting form created for both reporting agencies would be beneficial.

Chapter 4

MODEL AND DATA

Model

In this section, I present the dependent variables tried in the regression analyses, broad categories expected to cause variation in my dependent variables, and a description of the explanatory variables used to represent these broad categories.

My thesis studies whether the presence of RDAs in the 2000s had an impact on affordable housing in California's urban communities. Of course, this study is timely because of the elimination in early 2012 of these RDAs. I tested two potential dependent variables that attempted to gauge the degree of affordable housing in a community. These included *median housing values*, and *percentage of households paying rent over 35% income.* As either one of these measures rise, housing affordability falls. The U.S. Department of Housing and Urban Development considers households that pay over a third of their income toward housing cost burdened (2012). I obtained the data for the regression analysis from the Department of Housing and Community Development (HCD) data and the 2010 U.S. Census.

The literature review showed that pre-Great Recession housing in California was expensive and difficult for poor, minorities, and new homeowners to afford (Kolko, 2010). However, literature also showed that because of the recent recession, housing is more affordable than it was at its peak during the mid 2000s. Additionally, increased land use regulations drive prices up. To determine what characteristics of a community lead to more affordable housing, and whether expenditure by California's RDAs are exerting an impact, explanatory variables in the regression analysis presented here represent the area characteristics, and RDA expenditures. Using a regression analysis, it will link expenditures and results and will determine both if the amount and the type of RDA spending is affecting the value of housing. This finding will allow

me to conclude whether or not RDAs are fulfilling their specified roles as assisting households with affordable housing needs. This analysis will control for socioeconomic and demographic factors in a city that can affect the prevalence of a city's affordable housing. The general explanatory factors I have included help to explain the demand for affordable housing, and how local governments may influence the supply to fulfill those needs. The variables I included that may affect demand include income, cultural preferences, and education level.

The variables may have a positive or negative effect on either dependent variable. I have noted which variables I expect to have a negative effect with a (-), and those I expect to have a positive effect with a (+). The functional form of the model, proxies for each causal factor, and expected coefficients signs are as follows:

Median Housing Value or Percentage Households Paying Rent Over 35% Income = f(Housing Supply Factors, Housing Demand Factors)

RDA Housing Supply Factors= f(affordable units built divided by total housing units in the city (-), RDA expenditures per all housing units in a city (-), percentage of RDA expenditures spent on acquisition (-), percentage of RDA expenditures spent on construction of new units (-), percentage of RDA expenditures spent on debt service (-), percentage of RDA expenditures spent on improvements (-), percentage of RDA expenditures spent on mobile home park maintenance (-), percentage of RDA expenditures spent on planning and administration (-), percentage of RDA expenditures spent on preservation of at-risk units (-), percentage of RDA expenditures spent on rehabilitation of older units (-), percentage of RDA expenditures spent on percentage of RDA expenditures spent on subsidies (-), percentage of RDA expenditures spent on transfers (no effect)

Median Housing Values Demand Effects

Housing Demand Factors= f (median income (+), median age (+), unemployment rate (?), poverty rate (-), percentage of wealthy households (+), adults with a high school education (-),

adults with some college education or more (+), percentage of African Americans (+), percentage of Native Americans (+), percentage of Asians (+), percentage of Latin/Hispanic descent (+)

Gross Rent as a Percentage of Income - over 35% Demand Effects

Housing Demand Factors= f (median income (-), median age (-), unemployment rate (?), poverty rate (+), percentage of wealthy families (-), adults with a high school education (+), adults with some college education or more (-), percentage of African Americans (+), percentage of Native Americans (+), percentage of Asians (+), percentage of Latin/Hispanic descent (+)

Housing Supply Factors

The first key explanatory variable in this analysis is affordable units divided by total housing units in the city. I believe that increasing the percentage of affordable units in the city will lower median housing values and the percentage of households paying over 35% of their income towards rent. This change is a pure supply effect. Additionally, any increase in the second explanatory variable, aggregate expenditures per housing to increase or maintain affordable housing, will have an overall negative effect on this dependent variable. Furthermore, I expect all expenditure percentages to have a negative impact. I include all the expenditure types from HCD except "other" to avoid collinearity.

Housing Demand Factors

I drew the variables in this section from the 2010 U.S. Census; they are included to better explain the differences in demand for housing across California cities. According to the literature, income, custom preferences, and education levels will affect demand. I am most uncertain about the expected effects of this category of variables. Higher poverty status and unemployment rates may contribute to a lowering in median home values, but an increase in percentage of households paying over 35% of their income towards rent; however, high unemployment rates could mean a depressed local economy, and lower median home values and

rent ratios, so I note this variable with a "?". The percentage of wealthy households will correlate positively with median housing values, however, I expect it to correlate negatively with the percentage of households paying over 35% of their income towards rent. I believe that a higher median income, and age will show a positive effect on median housing values, while I believe that these same variables will show a negative correlation with percentage of households paying over 35% of their income towards rent. I suspect that a more highly educated the population of a city will demand less affordable housing, increasing the median value of homes overall, and fewer households will spend over a third of their income on rent. It is difficult to determine how different races will prefer to spend their income on housing, however, I believe that higher minority populations will contribute to lowering the percentage of households paying over 35% of their income in rents and median housing values, as they demand more affordable housing.

Conclusion

The previous section elucidated the basic model for my regression analysis and detailed the causal variables and their expected effects. The main categories of my variables consist of supply and demand factors from the HCD and U.S. Census to better understand how RDA spending has affected the median housing value in a city. I expect that the percentage of affordable units built will have a negative effect on median housing values and the percentage of households paying over 35% of their income in rent, because more units built is an increase to affordable housing. I expect most RDA expenditures (supply factors) to have a negative effect, as increases in expenditures would likely contribute to keeping housing more affordable in a city, and most of these expenditures affect building new units, maintaining existing units, or acquiring land for future use. However, I expect debt service to have a positive effect, because paying off debt does not build more units, though accruing debt does. Additionally, I suspect that increased spending in the planning and administration variable may actually have a positive effect. The

literature review showed that many of the expenditures drawn from the LMIHF for "planning and administration" may apply to the entirety of the RDA, not just the employees working on affordable housing issues.

I am uncertain of how some socioeconomic (demand) factors will affect the median housing value in a city. Factors such as income will likely have a positive effect, while cultural preference may have a negative effect if a family prefers to consume less housing in order to use money for other goods. I expect that cities with higher rates of poverty will have a negative effect on the dependent variable describing affordable housing, and conversely a higher rate of wealthy citizens will create a positive effect. Similarly, lower levels of education will likely have a negative effect, while higher rates of educated adults will have a positive effect.

Demand factors will likely have different effects on the second potential dependent variable, percentage of households paying over 35% of their income towards rent. I believe that increases in age, income, education, and wealth will decrease the number of households. While the poverty rate, unemployment rate, less education, and increased presence of minority groups will increase the number of households encumbered by housing costs.

In the following section, I will describe the variables in detail including descriptions, summary statistics, and their correlations.

Data

In this section, I will describe my data by reviewing the variables in my regression. Included are three tables: the first describes the variables and gives their source, the second provides descriptive statistics, and the third table investigates potential correlations among the independent variables.

I used data from the Department of Housing and Community Development, from 2001 through 2008. I limited the data to only active agencies that had expenditures as well as revenues

reported in this time. To reduce some possible double counting, I eliminated the county agencies. To create a study that was a more "apples to apples" comparison, I decided to use only city agencies. California counties are geographically large, and many metropolitan counties contain cities that have RDAs. Therefore, it would be difficult to discern any impact due to the multiplicity of players. The remaining dataset contained 347 agencies. I considered using census block level data to find specifically how much housing expenditures were spent in redevelopment project areas; however, many affordable housing projects exist outside the project area, therefore I discarded this idea. From the recent U.S. Census I added data for large socioeconomic categories to better understand the community characteristics that demand affordable housing expenditures. Therefore, the socioeconomic data represents the entire city, not only the specific project areas.

I converted all expenditures to *real dollars* from *nominal dollars* to account for inflation using the following formula:

RealExpenditureCost=NominalExpenditureCost * (2011 CPI/base CPI)

I used 2011 as my current year CPI to reflect current, national inflation rates.

The data from HCD provide many challenges. Redevelopment agencies can represent a county or city. In these cases, the agencies count expenditures separately. However, in Sacramento the city and county sum expenditures separately *and* together, because they operate a jointly administered entity called the Sacramento Housing and Redevelopment Agency. In other cases, entries appear suspiciously identical from year to year. Some terms are unclear or have a variety of meanings. The nebulous term "other" in the expenditure category generally refers to pass-throughs and ERAF shifts, transfers, infill loans, and assets acquisitions. The term "subsidies" in the same category applies to first-time homebuyer down payment assistance, rental subsidies, and purchase of affordability covenants. Yang (2007) noted that the most expenditures

are in planning and administration, and this study concurs with that conclusion. Nearly every agency has expenditures in "planning and administration," but few have expenditures in categories such as "units built," or "improvements." I discarded data from inactive agencies and agencies that were not actively spending or using revenues from their LMIHF.

Discussion of Variable Labels, Descriptions, and Data Sources

Table 4.1 identifies the dependent variables, and the independent variables in their broad causal categories. This first table lists the variables' names as I created them in my data set; Appendix D gives a more thorough explanation of HCD expenditures. Variables in my dataset came from two sources: the HCD LMIHF expenditure data, and the 2010 U.S. Census.

Table 4.1
Variable Labels, Descriptions, and Data Sources

Variable Label	Description	Source
Dependent Variable		
GRAPIPER	Percentage of households paying over 35% of gross income towards rent in a city	2010 U.S. Census
MEDHOUSVAL	Median of housing values for the city	2010 U.S. Census
Independent Variables: Affordable Housing Supply Factors		
AFFPERALLHOUSING	Affordable housing units reported built or maintained to HCD/total housing units in a city	HCD and 2010 U.S. Census
TOTEXPEND	Total expenditures from HCD on building or maintaining affordable housing units	HCD
EXPENDPERALLHOUSING	Total aggregate RDA expenditures of all types and years/ total housing units in the city	HCD and 2010 U.S. Census
ACQPEREXPEND	Percentage of HCD LMIHF expenditure spent on acquisition	HCD
CONSTRUCTPEREXPEND	Percentage of HCD LMIHF expenditure spent on building new units	HCD
DEBTPEREXPEND	Percentage of HCD LMIHF expenditure spent on debt service	HCD
IMPROVEPEREXPEND	Percentage of HCD LMIHF expenditure spent on improvements	HCD
MOBILEPEREXPEND	Percentage of HCD LMIHF expenditure spent on maintenance on mobilehome parks and units	
PLANADMINPEREXPEND	Percentage of HCD LMIHF expenditure spent on administration, planning, survey, design, professional services, and indirect non-profit costs	HCD
PRESERVEPEREXPEND	Percentage of HCD LMIHF expenditure spent on preservation of at-risk units	HCD
REHABPEREXPEND	Percentage of HCD LMIHF expenditure spent on bringing units to modern standards	HCD

SUBSIDIESPEREXPEND	Percentage of HCD LMIHF expenditure spent on subsidies for rentals, and first-time home buyer down payment assistance programs, etc.	HCD
TRANSFERPEREXPEND	Percentage of HCD LMIHF expenditure spent on transfers such as ERAFs	HCD
Independent Variables: Affordable Housing Demand Factors		
MEDIANINCOME	Median of incomes for the city	2010 U.S. CENSUS
UNEMPER	Unemployment rate for the city	2010 U.S. CENSUS
PERPOVERTY	Rate of poverty in the city	2010 U.S. CENSUS
WEALTHYPER	Rate of wealth in the city	
MEDIANAGE	Median age in the city	2010 U.S. CENSUS
HSGRADADULTPER	Highest education level attained by and adult: high school graduate or less	2010 U.S. CENSUS
COLLEGEADULTPER	Highest education level attained by an adult: some college or more	2010 U.S. CENSUS
AFAMPER	Percentage of African Americans in the city	2010 U.S. CENSUS
AMINDPER	Percentage of American Indians (includes Native Alaskans) in the city	2010 U.S. CENSUS
ASIANPER	Percentage of Asians in the city	2010 U.S. CENSUS
LATINHISPPER	Percentage of Latin American or Hispanic Descent in the city	2010 U.S. CENSUS

Discussion of Descriptive Statistics

In Table 4.2, I provide the summary statistics of all variables used in my regression model, once again grouped into their broad causal categories. Some supply categories representing percentages of RDA spending from the LMIHF show that some agencies used 100% of their expenditures on one category, notably “Planning and Administration” and “Transfers,” though this usage is clearly not the norm as the mean hovers much lower in both categories. The mean median housing value was high by national and California standards, at $438,119.30. The median California housing value according to the 2010 U.S. Census is $370,900, and the national median is $179,900; therefore, these 347 cities have higher median home values than average.

The mean of the median income was also higher than the California and national averages at $60,460.03. California's 2010 median income was $54, 459, while the national average was $49,445.85.

Table 4.2
Descriptive Statistics
N=347

Variable Label	Mean	Standard Deviation	Minimum Value	Maximum Value
Dependent Variable				
Percentage of households paying over 35% of gross income towards rent in a city	45.2571	7.6145	0	68
Median of housing values for the city	438119.30	199009.20	124900.00	1000000.00
Independent Variables: Affordable Housing Supply Factors				
Affordable housing units reported built or maintained to HCD/total housing units in a city	2.1734	4.6779	0.0000	55.2941
Total aggregate RDA expenditures of all types and years/ total housing units in the city	2632.5670	20225.5500	0.0470	280469.2000
Percentage of HCD LMIHF expenditure spent on acquisition	14.4214	19.1184	0.0000	98.7617
Percentage of HCD LMIHF expenditure spent on building new units	7.3955	14.7894	0.0000	83.7614
Percentage of HCD LMIHF expenditure spent on debt service	19.1911	22.6956	0.0000	98.8032
Percentage of HCD LMIHF expenditure spent on improvements	2.9417	10.5529	0.0000	100.0000
Percentage of HCD LMIHF expenditure spent on maintenance on mobilehome parks and units	0.2028	1.4783	0.0000	19.8253
Percentage of HCD LMIHF expenditure spent on administration, planning, survey, design, professional services, and indirect non-profit costs	23.3410	22.3437	0.0000	100.0000
Percentage of HCD LMIHF expenditure spent on preservation of at-risk units	0.2591	2.3624	0.0000	37.4277
Percentage of HCD LMIHF expenditure spent on bringing units to modern standards	7.8216	13.5188	0.0000	99.9736
Percentage of HCD LMIHF	13.3136	19.4644	0.0000	99.8494

expenditure spent on subsidies for rentals, and first-time home buyer down payment assistance programs, etc.				
Percentage of HCD LMIHF expenditure spent on transfers such as ERAFs	3.4146	10.6670	-1.4911	100.0000
Independent Variables: Affordable Housing Demand Factors				
Median of incomes for the city	60460.03	20680.36	18643.00	146917.00
Median age in the city	34.8755	6.2516	19.4000	66.5000
Unemployment rate for the city	8.3582	3.2065	2.3000	19.6000
Rate of poverty in the city	13.6631	7.8542	2.3000	61.5000
Rate of wealth in the city	4.9202	5.5825	0.0000	38.4000
Highest education level attained by and adult: high school graduate or less	22.9628	6.1427	5.0000	41.4000
Highest education level attained by an adult: some college or more	38.3236	11.0826	2.5000	59.8000
Percentage of African Americans in the city	4.6563	5.7721	0.0000	43.5104
Percentage of American Indians in the city	0.8692	0.8606	0.0000	8.2344
Percentage of Asians in the city	10.5468	12.5764	0.0000	64.8650
Percentage of Latin American or Hispanic Descent in the city	39.1458	25.3214	4.3113	100.0000

Discussion of Correlation Coefficients

Table 4.3, which is too long to place here appears in Appendix E, shows the simple correlation coefficients for all the variables in my model, as well as their significance. Variable interactions over 0.8 in that table indicate collinearity. There is very little collinearity present in this model. Unsurprisingly, there is a high correlation between wealth and median income.

Conclusion

The data section explained where I had retrieved my data, and my concerns about double counting, and inaccurate data input. The data from HCD provided many challenges; to help resolve some I eliminated County agencies and non-active agencies. The highest expenditures are in Planning and Administration, though the highest average expenditure was actually

Subsidies. The lowest spending was in mobile home parks. The correlation table resulted in only one correlation over 0.80, thus there is a low likelihood for collinearity in the model.

The following chapter will discuss the regression results for both dependent variables, corrected and uncorrected.

Chapter 5

REGRESSION ANALYSIS

This chapter will present the results of the regression analysis I performed using the statistical program Stata in a variety of functional forms, followed by a justification of the functional form that I selected. Following that, I will check the model for multicollinearity and heteroskedasticity, detail what I did to correct for these potential problems, and report the corrected results.

I tested two potential dependent variables, *median housing values* and *percentage of households that pay over 35% of their income towards rent*. I found no statistical significance in the primary explanatory variable to correlate median housing values to RDA expenditures, represented in Table 5.1. The dependent variable measuring the percentage of households spending over 35% of their income on rent showed that RDA activity exerted a significant negative influence on the dependent variable. Therefore, I continued my analysis with the second dependent variable, households paying over 35% of income towards rent. It is important to note that I did not find that RDA activity in the 2000s reduced California median home values over that period. I will refer again to this finding in my conclusion.

Table 5.1
Regression Results Using *Median Housing Values* as the Dependent Variable Across Functional Forms with Standard Errors (Uncorrected)

Variable Label	Linear	Log-Lin	Log-Log	Quadratic
Affordable units reported built or maintained/total housing units in a city – *squared*	N/A	N/A	N/A	29.1774 (60.0752)
Affordable units reported built or maintained/total housing units in a city	-62.1720 (1101.0350)	0.0026 (0.0027)	N/A	-788.4019 (2478.8500)
Total RDA expenditures of all types and years/total housing units in the city - *squared*	N/A	N/A	N/A	0.00001 (0.00001)
Total RDA expenditures of all types and years/total housing	-0.0936 (0.2753)	-0.000000003 (0.000001)	0.0118 (0.0093)	-1.6801 (3.1629)

units in the city				
Percentage of HCD LMIHF expenditure spent on acquisition	634.1599 (392.8614)	0.0013 (0.0010)	0.0012 (0.0010)	630.8424 (395.1286)
Percentage of expenditures spent on construction	904.903** (446.2520)	0.0024** (0.0011)	0.0021** (0.0011)	932.9227** (448.4211)
Percentage of expenditures spent on debt service	394.7779 (364.3893)	0.0004 (0.0009)	0.0001 (0.0009)	410.8853 (365.8361)
Percentage of expenditures spent on improvements	-828.2813 (548.8547)	-0.0031 (0.0013)	-0.0037*** (0.0014)	-822.4263 (550.9698)
Percentage of expenditures spent on maintenance of mobile home parks and units	-1129.179 (3383.0370)	0.0011 (0.0083)	0.0038 (0.0085)	-1116.1320 (3390.297)
Percentage of expenditures spent on planning and administration	264.1133 (370.5358)	-0.0001 (0.0009)	-0.0001 (0.0010)	234.6621 (372.8671)
Percentage of expenditures spent on preservation	-2087.309** (2120.6470)	-0.0060 (0.0052)	-0.0057 (0.0053)	-2115.6630 (2125.8000)
Percentage of expenditures spent rehabilitation	1099.09 (459.9382)	0.0012 (0.0011)	0.0012 (0.0012)	1098.6330** (461.6300)
Percentage of expenditures spent on subsidies	329.0285 (386.8116)	0.0005 (0.0009)	0.0005 (0.0010)	331.8343 (389.3292)
Percentage of expenditures spent on transfers	292.4692 (611.5152)	0.0009 (0.0015)	-0.00001 (0.0015)	231.2893 (621.8299)
Median of incomes for the city	-1.698388** (0.8756)	-0.000003 (0.000002)	0.4817*** (0.1214)	-1.7424** (0.8793)
Median age in the city	-1524.166 (1429.2820)	-0.0022 (0.0035)	0.3810*** (0.1319)	-1447.9000 (1441.8650)
Unemployment rate for the city	-13429.27*** (2441.0660)	-0.0398*** (0.0060)	-0.3542*** (0.0553)	-13514.3*** (2458.3460)
Rate of poverty in the city	-7452.976*** (1687.2250)	-0.0233*** (0.0041)	-0.0013 (0.0592)	-7553.494*** (1694.9570)
Rate of wealth in the city	17754.19*** (2740.1930)	0.0206*** (0.0067)	-0.0030 (0.0054)	18072.34*** (2778.3790)
Highest education level attained by and adult: high school graduate or less	-8906.815*** (1343.9480)	-0.0216*** (0.0033)	-0.4580*** (0.0697)	-8729.8980*** (1363.0570)
Highest education level attained by an adult: some college or more	-1194.384 (1252.5990)	0.0003 (0.0031)	0.1338** (0.0637)	-1072.6540 (1265.8350)
Percentage of African Americans in a city	-234.6714 (918.6473)	0.0011 (0.0023)	-0.0007 (0.0023)	-166.6842 (924.0741)
Percentage of American Indians (includes Native Alaskans) in a city	-1421.747 (6894.8640)	-0.0052 (0.0169)	-0.0024 (0.0174)	-970.9343 (6929.3900)
Percentage of Asians in a city	1909.837*** (467.6460)	0.0048*** (0.0011)	0.0040*** (0.0011)	1923.0410*** (468.8265)
Percentage of Latin American or Hispanic Descent in a city	-57.92861 (465.2366)	0.0012 (0.0011)	0.1135*** (0.0335)	13.6930 (481.1081)
Constant Term	915467.7	13.9998	7.404	906487.3000
R-Squared	0.8024	0.7879	0.7769	0.8029
Adjust R-Squared	0.7884	0.7728	0.7617	0.7875

Observations	347	347	347	347
Number of Significant Variables	8	6	9	8
*Statistical Significance: *=90%, **=95%, ***=99% or more*				

I ran several regressions to find the best functional form for the model, beginning with a linear-linear Ordinary Least Squares (OLS) equation, and following with theoretically preferred models such as log-log, log-lin, and a quadratic. Table 5.2 reports the uncorrected coefficient results, along with the Variance Inflation Factors (VIFs) for the selected regression model.

Table 5.2
Regression Results Using *Gross Rent Over 35% of Income* as the Dependent Variable Across Functional Forms with Standard Errors (Uncorrected)

Variable Label	Linear	Log-Lin	Quadratic	Log-Log	VIF for Linear
Affordable units reported built or maintained/total housing units in a city – *squared*	N/A	N/A	-0.0052 (0.0044)	N/A	N/A
Affordable units reported built or maintained/total housing units in a city	0.1140 (0.0810)	0.0020 (0.0019)	0.2721 (0.1820)	N/A	1.10
Total RDA expenditures of all types and years/total housing units in the city - *squared*	N/A	N/A	-0.0000000004 (0.000000001)	N/A	N/A
Total RDA expenditures of all types and years/total housing units in the city	-0.0001*** (0.00002)	-0.0000024*** (0.0000006)	-0.00003 (0.0002)	-0.0069 (0.0063)	1.28
Percentage of HCD LMIHF expenditure spent on acquisition	-0.0115 (0.0289)	-0.0003 (0.0007)	-0.0099 (0.0290)	-0.0001 (0.0007)	2.33
Percentage of expenditures spent on construction	0.0229 (0.0328)	0.0006 (0.0007)	0.0200 (0.0329)	0.0007 (0.0008)	1.80
Percentage of expenditures spent on debt service	0.0106 (0.0268)	0.0001 (0.0006)	0.0091 (0.0269)	0.0001 (0.0006)	2.82
Percentage of expenditures spent on improvements	0.0142 (0.0404)	0.0003 (0.0009)	0.0146 (0.0405)	0.0004 (0.0009)	1.38
Percentage of expenditures spent on maintenance of mobile home parks and units	0.1911 (0.2489)	0.0051 (0.0056)	0.1873 (0.2489)	0.0044 (0.0057)	1.03
Percentage of expenditures spent on planning and administration	-0.0290 (0.0273)	-0.0006 (0.0006)	-0.0257 (0.0274)	-0.0007 (0.0006)	2.83
Percentage of expenditures spent on preservation	-0.1937 (0.1560)	-0.0041 (0.0035)	-0.1923 (0.1561)	-0.0037 (0.0036)	1.04
Percentage of expenditures spent rehabilitation	0.0023 (0.0338)	0.0000249 (0.0008)	0.0014 (0.0339)	0.0001 (0.0008)	1.60

Percentage of expenditures spent on subsidies	-0.0005 (0.0285)	-0.0000118 (0.0006)	-0.0021 (0.0286)	0.0002 (0.0006)	2.34
Percentage of expenditures spent on transfers	0.0277 (0.0450)	0.0014 (0.0011)	0.0321 (0.0457)	0.0016 (0.0011)	1.76
Median of incomes for the city	-0.00004 (0.0001)	-0.0000008 (0.0000015)	-0.00004 (0.0001)	0.0350 (0.0862)	13.53
Median age in the city	-0.0318 (0.1052)	-0.0001 (0.0024)	-0.0357 (0.1059)	0.0314 (0.0905)	3.30
Unemployment rate for the city	-0.3402* (0.1796)	-0.0101** (0.0041)	-0.3222** (0.1805)	-0.0849** (0.0371)	2.53
Rate of poverty in the city	0.1795 (0.1241)	0.0050** (0.0028)	0.1901 (0.1244)	0.1210*** (0.0414)	7.25
Rate of wealth in the city	-0.1963 (0.2016)	-0.0060 (0.0046)	-0.2265 (0.2040)	-0.0049 (0.0037)	9.66
Highest education level attained by and adult: high school graduate or less	0.2799*** (0.0989)	0.0061** (0.0046)	0.2574** (0.1001)	0.1100** (0.0465)	2.81
Highest education level attained by an adult: some college or more	0.2024** (0.0922)	0.0043** (0.0021)	0.1910** (0.0929)	0.0707 (0.0460)	7.95
Percentage of African Americans in a city	0.0124 (0.0676)	0.0005 (0.0015)	0.0050 (0.0678)	0.0004 (0.0016)	1.16
Percentage of American Indians (includes Native Alaskans) in a city	-0.4176 (0.5073)	-0.0088 (0.0114)	-0.4749 (0.5087)	-0.0132 (0.0116)	1.45
Percentage of Asians in a city	0.0078 (0.0344)	0.0001 (0.0008)	0.0064 (0.0344)	-0.0003 (0.0008)	1.43
Percentage of Latin American or Hispanic Descent in a city	0.0374 (0.0342)	0.0008 (0.0008)	0.0319 (0.0353)	-0.0019 (0.0228)	5.73
Constant Term	3.5709	36.0540	36.0540	2.6781	
R-Squared	0.2694	0.2218	0.2742	0.1995	
Adjust R-Squared	0.2174	0.1662	0.2177	0.1450	
Observations	347	346	347	346	
Number of Significant Variables	4	5	3	3	
*Statistical Significance: *=90%, **=95%, ***=99% or more*					

Selecting a Functional Form

Tables 5.1 and 5.2 illustrate four types of functional forms and how regression findings could differ based on the selected model. The linear-linear OLS model produced four significant variables, one of which was a primary explanatory variable that was also in the expected direction (negative).

Following the linear regression, I ran two logarithmic models, first with the dependent variable logged (log-lin), then with any variables that did not include a zero or negative number (log-log). The log-lin model produced five significant variables, one of which was the primary explanatory variable, all RDA expenditures/all housing units in the city, and three in the expected direction. The log-log model produced only three significant variables, none of which was the primary explanatory variables. Additionally, because one city reported a zero in the primary explanatory variable, Stata reported one less observation than the linear and quadratic specifications.

The final method I tested was a quadratic in which I squared the primary independent variables *affordable units/all housing units in the city* and *all expenditures divided by all housing units in the city*. The quadratic produced three significant variables, none of which was the primary explanatory variable, two were in the expected direction.

Two variables were significant and in the expected direction in the linear, log-lin, and quadratic regressions: *all expenditures per housing units in a city (-)* and *highest education level attained by an adult: high school graduate or less (+).* In the log-lin regression, the variable for *poverty rate* was also significant and in the expected direction.

The adjusted R^2 values for the linear and the quadratic regressions are higher than for the log-linear regression, but it would be unwise to compare the R^2 across functional forms (Studenmund, 2006, 211). However, at this point the quadratic regression has the highest R^2.

Multicollinearity

Multicollinearity occurs when any independent variable is a linear function of any other independent variable. *Perfect multicollinearity*, a rarity, would be a perfect linear function of another variable and a violation of Classical Assumption VI, which states that no independent variable should be perfect linear function of any other independent variable (Studenmund, 2006,

94); more likely would be *imperfect collinearity*, wherein two variables may be significantly related though not perfectly linear (Studenmund, 2006, 247-252). It would therefore be difficult to distinguish the effects of one variable from another.

I checked for multicollinearity in two ways. First, I examined the correlation table (Table 4.2) for any values greater than 0.80. Larger coefficients imply multicollinearity. There was one variable interaction above the 0.80 thresholds, between *median income* and *percentage of wealthy families in a city*. This result appears to be a natural correlation, as median incomes rise the percentage of wealthy households will also see an increase. Second, I assessed the variance inflation factor (VIF) for each coefficient. As a rule of thumb, though this technique is not precise, a VIF over five will also indicate the presence of multicollinearity. All three regressions had variables with VIF over five.

There are two main ways to correct for multicollinearity: by dropping redundant variables, or by expanding the size of the dataset. Expanding the dataset is outside of the scope of this thesis; however, future research could employ a time-series dataset or panel dataset. Dropping variables should only occur if there is high correlation and the variables are not statistically significant. To correct for some multicollinearity, I dropped two variables with higher interactions, *highest education for an adult: some college or more* and *median income.* After the correction, no regression had a VIF over five. The linear regression increased to five significant variables, four of which were in the expected direction. The quadratic regression increased the number of significant variables to four, three of which were in the expected direction. However, the log-lin regression showed fewer significant variables.

Additionally, because the quadratic regression's primary explanatory variables were not significant I will disregard it, and move on with the linear regression. The corrected linear

regression shows the lowest mean VIF, and a higher adjusted R^2. Therefore, I will select the linear regression as the functional form for this study.

Heteroskedasticity

Linear regression models assume that variables have a constant variance. Heteroskedasticity is present when variables do not have a constant variance, and tend to be more prevalent in cross-sectional models (Studenmund, 2006, 337). Heteroskedasticity could lead to errors in determining which variables are significant. To check for heteroskedasticity I ran the Breusch-Pagan test, as shown in Table 5.3, and the Szroeter Test. These tests show estimated variance of the standard errors are dependent on the independent variables.

Heteroskedasticity is present if (Prob>chi^2)= 0.10 or less. The Breusch-Pagan test shows that the model does not have an overall issue with heteroskedasticity.

Table 5.3
Breusch-Pagan / Cook-Weisberg Test for Heteroskedasticity

$chi^2(21) = 22.25$
Prob>$chi^2 = 0.3852$

The Szroeter's test examines each variable individually for heteroskedasticity. The results of the Szroeter test are in Appendix F. Any variable with a p-value less than 0.10 indicate the presence of heteroskedasticity. The Szroeter test showed that two variables, *percentage of expenditures spent on planning and administration* and *percentage of wealthy households*, have some heteroskedasticity. To adjust for this heteroskedasticity, I will use Robust Standard Errors to calculate my corrected regression, the results of which are below in Table 5.3.

Some changes are evident in the corrected results. There are fewer significant results, however all significant results are now in the expected directions. The VIFs remain below five, indicating that multicollinearity is not a problem. The significance for the primary variable has lowered from 99.99% to 95%, and the coefficient is smaller, though still in the expected direction.

The corrected coefficient for *Total RDA expenditures of all types and years/total housing units in the city* is -0.00014, which is significant at the 95% confidence level. However, the magnitude is very small, indicating a very small change. For every dollar increase in RDA expenditures, the percentage of households paying over 35% of their income towards rent decreases by 0.00014%. For example, the mean of total expenditures for all cities is $2,632.57 per housing units in a city. If a city spent that amount, it could expect a 0.37% reduction in the percentage of households paying over 35% of income towards rent.

Table 5.4 Corrected Linear Regression Results		
Variable	Linear	VIF for Linear
Affordable units reported built or maintained/total housing units in a city	0.11491 (0.10778)	1.08
Total RDA expenditures of all types and years/total housing units in the city	-0.00014** (0.00008)	1.23
Percentage of HCD LMIHF expenditure spent on acquisition	-0.00590 (0.03155)	2.30
Percentage of expenditures spent on construction	0.02677 (0.03306)	1.79
Percentage of expenditures spent on debt service	0.01368 (0.03154)	2.82
Percentage of expenditures spent on improvements	0.01481 (0.04370)	1.38
Percentage of expenditures spent on maintenance of mobile home parks and units	0.20566 (0.13287)	1.03
Percentage of expenditures spent on planning and administration	-0.02896 (0.03178)	2.82
Percentage of expenditures spent on preservation	-0.19126 (0.21438)	1.04
Percentage of expenditures spent rehabilitation	0.00819 (0.03826)	1.59
Percentage of expenditures spent on subsidies	0.00443 (0.03214)	2.32
Percentage of expenditures spent on transfers	0.02414 (0.07556)	1.75
Median age in the city	-0.00564 (0.09728)	2.64
Unemployment rate for the city	-0.34991 (0.25564)	2.52
Rate of poverty in the city	0.13424 (0.12057)	2.84
Rate of wealth in the city	-0.32470*** (0.11749)	3.20
Highest education level attained by and adult: high school graduate or less	0.19691** (0.10637)	2.43
Percentage of African Americans in a city	0.01972 (0.06463)	1.16
Percentage of American Indians (includes Native Alaskans) in a city	-0.40390 (0.63998)	1.43
Percentage of Asians in a city	-0.01008 (0.03647)	1.32
Percentage of Latin American or Hispanic Descent in a city	-0.01550 (0.02708)	2.67
Constant Term	44.76808	
R-Squared	0.2576	
Observations	347	
Number of Significant Variables	3	
*Statistical Significance: *=90%, **=95%, ***=99% or more*		

Chapter 6

CONCLUSIONS

The following section will consider my findings, the study's limitations, policy implications, and future research, as well as summarize the final regression results. It will also assess the fit of the model and discuss the expected signs for significant coefficients.

My thesis explored whether RDAs were influencing the affordability of housing in California's urban centers. I tested two measures of housing affordability, *median housing values*, and *percentage of households paying over 35% of gross income towards rent*. Using those tests, I found that RDA expenditures had no significant effect on median housing values in California's cities. If the purpose of the Low-Moderate Income Housing Fund was to increase housing affordability in urban areas, the agencies would have reduced the median of housing values. However, the regression analysis showed that RDA expenditures had no significant effect on median housing values in cities where they were active. I found significance in the percentage of households paying over 35% of income towards rent, though the coefficient was very small. There was some reduction of this group. However, the effect may have been so small as to be inconsequential. Therefore, my thesis concludes that redevelopment agencies' spending on low- and moderate-income housing did not significantly increase the affordability of housing in California.

Decreased housing production has prolonged the Great Recession in California, and contributed to a housing shortage (Kolko, 2011). Employers are unable to attract employees without sufficient affordable housing available near jobs, and high housing costs are a burden to households. Despite the falling housing prices because of the foreclosure crisis, average California housing remains expensive at 1.8 times the national average according to Zillow (2010), and the market is tight due to continued high demand. Rents are high, and continuing to

rise. The cost burden of housing could continue to slow the California's economic recovery (Kolko, 2011). Veterans, low-income families, former foster children, prisoners re-entering society, and seniors are growing groups that need affordable housing.

The 2010 U.S. Census indicated that 47.8% of rent-paying households pay over 35% of their incomes toward housing in California; more households are paying more in rent due to the effects of the recent foreclosure crisis. Furthermore, one in four households in the country pays more than 50% of its income towards housing, mostly because of low-income renters (U.S. Census, 2010). There is a need for affordable housing, and perhaps a willingness to provide it by voters and lawmakers. Californians believe in creating affordable housing, having approved general obligation bonds equivalent to over $5 billion in 2000 (Proposition 46) and 2006 (Proposition 1C) to finance construction, rehabilitation, and preservation of units, as well as assisting Californians to become or remain home owners (DeSaulnier, 2012).

This study found that RDAs did little to increase affordability of housing in California cities, and policymakers should consider that when creating new policies for affordable housing. Governor Brown's proposal to dissolve RDAs was controversial, and there were many efforts to block the move. Many groups feared that the Governor's actions would make it harder to create affordable housing. Despite the controversy, there was more pressure to pass a timely and better-balanced budget, and the Legislature approved the dissolution of the agencies. The Legislature passed two emergency measures to continue the work of some RDAs, AB 1X 26 (Blumenfeld, 2012) and AB 1X 27 (Blumenfeld, 2012). However, the state Supreme Court declared AB 1X 26 unconstitutional, negating AB 1X 27 as well. The League of California Cities, the California Redevelopment Association, and the Cities of San José and Union City filed a lawsuit to counter the abolishment of RDAs and funds for affordable housing. Though there are many claims that the elimination of RDAs would be detrimental to California affordable housing, there are no

recent studies available to back these assertions. My study concurs with the State Controller's case study report, and the LAO's analysis, and shows that the concerns of these groups may not be valid.

Final Regression Results - Elasticities and Confidence Intervals

To allow comparison between the significant variables and their effects, I converted them into elasticities, pictured in Table 6.1. To calculate the elasticities, I multiplied the regression coefficient by the mean of the explanatory variable divided by the mean of the dependent variable (elasticity=coefficient*(mean of X/mean of Y)). All else being equal, elasticities evaluate a percentage change in the dependent variable given a one-point change in the independent variable.

Percentage of adults with some high school education in a city has the highest impact on *percentage of households paying over 35% of their income towards rent.* The corrected coefficient is 0.1969, significant at the 95% level. The elasticity suggests that for every one-point increase in percentage of adults with some high school education in a city, the result would be a 0.0999% increase in the percentage of households paying over 35% of income towards rent. I predicted this result would be positive, because the literature review suggested that less education could result in the need for more affordable housing.

The *percentage of wealthy households in a city* reduced the *percentage of households paying over 35% of income towards rent*. The corrected coefficient is -0.3247, significant at the 99% level. For every one percent increase in wealthy households in a city, the percentage of households paying over 35% of their income towards rent drops by 0.0353%.

The final significant coefficient, *total RDA LMIHF expenditures divided by all housing units in a city* was a primary explanatory variable. The corrected coefficient for this variable was -0.0001, significant at the 95% level. For every one percent increase in the total RDA

expenditures for affordable housing divided by all housing units in a city, the percent of households paying over 35% of their income towards rent dropped by 0.0081%.

However, all the elasticities are quite small, reflecting the size of the coefficients, and suggests the expansion of this study to consider additional variables.

Table 6.1
Elasticities and Confidence Intervals for Significant Variables

Variable Level	Corrected Linear	Elasticity	Confidence Interval Range (90% Level)	
Constant	44.7681			
Dependent Variable				
Percentage of households paying over 35% of income towards rent				
Independent Variables: Affordable Housing Supply Factors				
Expenditures divided by all housing units in a city	-0.0001** (0.0001)	-0.0081	-0.0003	-0.00000849
Independent Variables: Affordable Housing Demand Factors				
Percentage of wealthy households in a city	-0.3247*** (0.1175)	-0.0353	-0.5185	-0.1309
Percentage of adults with a high school education	0.1969** (0.1064)	0.0999	0.0215	0.3724
Statistical Significance: * is 90%, ** is 95%, and *** is 99% or greater				
Formula: Elasticity=Coefficient * (mean of X/ mean of Y)				

Model Fit

Regression analyses should evaluate "goodness of fit" or rather, whether or not the model is sufficient to explain the variation in responses, by estimating the R-squared (R^2) (Studenmund, 2006, 50). The fit ranges from zero to one, one being a perfect fit. A 0.8 is a model with great fit, though for cross-sectional data an R^2 of 0.5 is sufficient. Overall, the "fit" of this model is low, indicating the possibility of omitted variable bias in the regression equation. An adjusted R^2 of 0.2576 indicates that my model did not account for about 74% of variation in percentage of households paying over 35% of income towards rent in a specific city in comparison to using the mean value. Researchers should be cautious in interpreting the results of this model, because the equation does not account for part of the variance in the model. Yet, the regression results

showed statistical significance on some explanatory variables, therefore the model was theoretically sound.

However, the model for the dependent variable *median housing values* had a high adjusted-R^2. Therefore, the model had a good fit for that dependent variable, ranging from 0.7617 to 0.7884 across functional forms. For that reason, researchers should consider this model a good fit, because the model accounted for most variances. The statistical insignificance in the model indicated that RDA activity had no effect on home values in a city.

Future analyses could therefore take the fit of this model into consideration, and create a broader version, including more depth in variables such as including more household income and education levels, and perhaps geographical indicators. Future studies could also expand the variables in this study, perhaps to include more geographical indicators, and more demand factors such as community characteristics, as well as consider the land-use policies of cities. Access to census micro-data would be beneficial. I believe a time interval or panel data set might also show more intricacy in the data.

Significance of Variables and Expected Signs

My corrected regression analysis held three significant variables. The primary explanatory variable, *total RDA expenditures divided by total number of housing units*, was significant at the 95% level, and the coefficient was negative, as expected. However, the coefficient was also very small, indicating very low impact. The demand variable, *percentage of wealthy households in a city,* was significant at the 99% level, and in the expected direction, negative. Therefore, as the percentage of wealthy households increased, fewer households are paying over 35% of income in rent. This increase could indicate that wealthier households tend to buy homes rather than rent; however the model controls for a community with more wealthy individuals and thus they are less likely to devote as much of their income to housing. The final

significant variable, *percentage of adults with a high school education*, was significant at the 95% level, and in the expected direction, positive. This variable would indicate that an increase in adults with a high school education, but no more, would increase the percentage of households paying over 35% of their incomes towards rent.

None of the individual RDA expenditures had a significant effect, only the total expenditures divided by the number of units in a city was significant. As the percentage of adults with only a high school education increased, so did the percentage of households cost burdened by rents. Yet, as the percentage of wealthy households increased the percentage of households burdened with rent decreased. It was surprising to see that minority status and rate of poverty did not have a significant effect.

Conclusion

The Legislature is currently considering several bills to spend the considerable amount of money left over in the LMIHFs, and to further fund affordable housing. AB 1585 (J. Peréz, 2012) would give local housing agencies the approximately $1.4 billion meant for Low and Moderate-income housing. The bill requires the agencies to commit 80% of the funds within two years, and spend the money within four years. HCD would receive unspent funds for use on low-income housing programs. The bill received partisan support in the Assembly as an emergency measure, has moved on to the Senate for approval. SB 1220 (Steinberg, 2012), the Housing Opportunity and Market Stabilization (HOMeS) Trust Fund Act of 2012, would impose a $75 fee on recordation of real estate documents to create a permanent source of funds for affordable housing, as well as an authority to oversee the agencies.

RDA LMIHF was not the only funding available for creating more affordable housing in California, but was one of the largest in the state, contributing about $1 billion annually. However, as the recession grew longer, fewer sources were available for creating affordable

housing. Other studies have shown, and this study concurs, that funds were not used to their full effectiveness at all agencies. Therefore, as legislators consider a replacement statute, they should insist on an accessible data system, mandate regular reports, and require a report on the program's effectiveness. Regular audits should further ensure the validity of data. HCD has collected data for years, but lacks the staffing to analyze the information, and therefore could not determine which agencies or types of expenditures were most effective. The agencies need to assure decision makers, recipients, and citizens that affordable housing spending is effective and efficient.

The dissolution of the RDAs is an opportunity to create a more effective program with better outcomes, and a more successful approach. This study did not aim to measure organizational performance measures, but state government agencies are usually held to such standards, and any agency charged with providing affordable housing should measure and monitor outcomes, meet milestones, and define specific tasks to achieve organizational objectives. The HOMeS act would create a permanent source of funding, but needs better reporting and related oversight. My work shows that redevelopment agencies did not improve housing affordability. Their demise creates an opportunity to put affordable housing money to much better use.

APPENDICES

Appendix A

Legislation Affecting the LMIHF

Bill	Summary
AB 3674 (Montoya, 1976)	Required tax officials to report on the impact of redevelopment plans financed through tax increment financing.
AB 4566 (Polonco, 1988)	Required redevelopment officials to identify excess surplus in LMIHF and use the funds on affordable housing.
AB 1290 (Isenberg, 1993)	Also known as the "1993 reforms:" established specific set-asides for counties and school districts, established time limits on projects and debts, altered the definition of "blight" repealed the ability of agencies to use sales tax revenues, allowed agencies not using their LMIHFs to be shut down (Fulton & Shigley, 263, 2005).
SB 497 (Rainey, 1999)	Required redevelopment agencies to file audits with the State Controller
AB 178 (Torkalson, 1999)	Stops municipalities from offering financial assistance to auto malls and big box retailers to encourage them to move into a new community in the same market area.
SB 109 (Torlakson, 2003)	Improved the oversight of the State Controller over redevelopment agency audits.

Appendix B

Court Rulings Affecting Redevelopment and the LMIHF

Lawmakers made many attempts to reform redevelopment and limit abuses, but court rulings also affect redevelopment reforms. Most tend to center around a poor definition of "blight."

Lancaster Redevelopment Agency v. Dolores Dibley et al, (1993) 20 Cal.App.4th 1656

The appellate court determined that the California Redevelopment Law requires an RDA to use the Low-Mod Fund monies for affordable housing.

Cheri L. Craig v. City of Poway,(1994) 28 Cal.App.4th 319

The appellate court determined that a redevelopment agency must set aside 20% of its annual tax increment for the Low-Mod Fund.

Redevelopment Agency of the City of San Marcos v. California Commission on State Mandates, (1997) 55 Cal.App.4th 976

The appellate court rejected the San Marcos RDA's claim for money and determined that the state is not required to reimburse RDAs for the revenues set-aside in the Low-Mod Fund.

County of Riverside v. City of Murrieta (1998) 65 Cal. App 4th 616

The appellate court disapproved and rejected of the findings of blight in a 3,700-acre redevelopment, citing little evidence, vague language, and the project area was not at least 80% urbanized.

Beach –Courchesne v. City of Diamond Bar (2000), 80 Cal. App. 4th 388

Diamond Bar argued that the current commercial areas were obsolete and were hampering the new cities ability to compete and grown economically. The court said in its rejection of the plan, that redevelopment "is not simply a vehicle for cash strapped municipalities to finance community improvements," and that the evidence of blight was insubstantial.

Friends of Mammoth v. Town of Mammoth Lakes Redevelopment Agency (2000), 82 Cal. App. 4th, 511

The court rejected the redevelopment plan based on a poorly executed environmental impact report (EIR), the determination that the project area was 80 percent urbanized, and that the town of Mammoth Lakes had accepted the plan despite these obvious flaws. The court stated that, "The town sought to include in the Project Area undeveloped land and obviously non-blighted land which is planned and approved for extensive private development." The court also noted that the proposed project read like a municipalities "wish-list."

Hogar Dulce Hogar v. Community Development Commission of the City of Escondido, (2003) 110 Cal.App.4th 1288

The appellate court determined that the California Redevelopment Law requires RDAs to deposit 20% of its "gross tax increment receipts" not "net tax increment receipts."

Appendix C

A Table of Literature, Findings, and Conclusions

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2010) Adkisson, J., Hill, J., Korber, D., Vogel, N.	Qualitiative, prepared for Senate Rules Committee	Sacramento	Two agencies report different amounts for the Low-Mod fund held by Redevelopment Agencies	Human error, complicated reporting systems, complex redevelopment requirements, different definitions, lack of legal ramifications for inaccurate reporting, and lack of auditing contribute to confusion over how much money is actually in the LMIHF.
(1999) *Anderson, J.E., Wassmer, R. W.*	Regression Analyses: Ordinary Least Squares (OLS), Maximum Likelihood Regression, Benefit-Cost Evaluation	Detroit Metropolitan Area	Explores the effect of economic development incentives on local governments ability to attract and retain manufacturing and commercial projects, includes tax abatements, tax increment finance authorities, downtown redevelopment authorities.	Local control of incentives increases likelihood of communities offering economic incentives increases with proximity to a metropolitan area doing the same. Benefits are not greater than the costs. Economic incentives negatively influence employment rates because they attract more new residents than jobs.

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2001) Anderson, J.E. & Wassmer, R. W.	Simultaneous regression analysis,	112 communities in the Detroit Metropolitan Area, (1977, 1982, 1987, 1992)	Examines local development incentives in a metropolitan area, attempts to discover if the relinquished tax revenue is justified for the economic development to the area. Studies four measures of economic development: residential employment rate, poverty rate, manufacturing property value, and commercial property value.	*Residential Employment*: an increase in commercial activity and property value may increase employment, however, it also increases migration into a community. *Poverty Rate*: an increase in commercial activity or manufacturing, and property values results in a lower poverty rate. *Manufacturing Property Values:* no statistically significant effect on property values due to local economic incentives. *Commercial Property Values:* Property tax abatements never had a positive influence, but Tax Increment Financing Authorities (TIFAs) or a Downtown Development Associate (DDA) did have a positive impact.

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2010) Baldasarre, M., and Urahn, S.	Survey via questionnaire	Arizona, California, Florida, Illinois, and New York, responses from survey questionnaires in English and Spanish (2010) N=5,010 +/- 4%, 95% confidence level	Public attitudes and fiscal realities in five fiscally distressed states	1) Respondents were more likely to believe that elected leaders need to work harder to control wasteful spending and deliver services more efficiently than think that their state government is too big. 2) Respondents tend to think that K-12 education and health and human services programs were core functions of state government and would be willing to protect them even if it meant higher taxes. 3) Respondents would prefer to tax the wealthy, corporations, smokers, drinkers, and gamblers. 4) Respondents would prefer that state governments stop borrowing to cover expenses and would rather see cuts and revenue increases. 5) Respondents do not trust their state governments, believe it can operate more efficiently, and want to see immediate reforms.
(2010) Byrne, P.F.	Panel data set, pooled-OLS, fixed effects regression model, first-difference fixed effects model	Illinois, Illinois Department of Employment Security and Department of Commerce and Community Affairs, (1981-1999) N=1449	Tax Increment Financing's impact on municipal employment growth.	No statistically significant evidence that TIFs have a positive impact on municipal employment growth. Suggests that employment growth in a TIF area is due to shifting jobs from elsewhere, and that competition may negatively affect the surrounding areas employment.

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2011) California Budget Project (CBP)	Literature Review		Gathers research on redevelopment and tax increment financing effectiveness on economic development.	Overall, research determines that there is no significant increase in economic activity statewide; rather, development areas shift activity from one part of the city to another. No evidence that TIFs will attract outside businesses, or increase economic activity in California.
(2011) Cataline, N. & Finnestead, R.	Qualitative, Data Collection, interviews		Collecting accurate data to determine how much money remains in the LMIHFs.	The data is difficult to approach and use. Though the information is available to the public, it is difficult to access and sometimes expensive. Even the employees who report data to HCD are unsure of what they should be reporting, leading to human error and potentially bad data. Both HCD and the State Controllers office need to revamp their data collection methods, consolidate their reports, and create easier methods to access the information. Oversight from a state agency might be helpful.
(1998) Chapman. J.I.	Qualitative		Proposition 13's effects on land use, and changes in local finance.	Three major unintended consequences of Proposition 13: 1) fiscalization of land use, including the creation of RDAs and use of TIF; 2) the growth of overly complex finance techniques; 3) increase in state control over local finances.

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2011) Chiang, J.	Financial and Agency Analysis,	California, 18 RDAs, (FY 2009-2010)	Determines how RDAs are using their funds, if they are paying into SERAFs, and LMIHFs properly, identifies how "blight" was defined or determined.	Some RDAs made appropriate payments into their LMIHF. Other agencies failed to move a portion of the LMIHF into the SERAF, funds in the LMIHF were used improperly, and most RDAs had questionable expenditures. All 18 agencies had reporting deficiencies, and independent audits failed to find major audit violations and did not include all required information, under current legal conditions and definition of "blight" will be accepted. Each RDA has a different method of capturing data on how many jobs are maintained or created as a result of redevelopment, each RDA has a different method for determining indebtedness, each RDA has a different method to account for planning and administrative costs.
(n.d.) Christensen, K., Garrison, J., Minkoff, M., Poindexter, S., Smith, D.	Details of RDA spending	HCD LMIHF data set, (FY 2000-2001 to FY 2007-2008)	How RDAs are spending their money, totals, and warning signs.	Creates a data set with total money spent for the eight fiscal years it covers. Creates warning signs and determines if the agency failed to develop land within five years, if over 50% of funds were spent on planning and administration, and if over $100,000 of the RDAs budgets were spent with no units built
(1998) Dardia, M.	Comparison and analysis of RDAs and comparable city blocks.	California, 114 projects, (1978 to 1992)	Analyzes RDA projects potential for increasing property values. Examines degree of "blight" in project areas.	RDAs are not self-financing. Each city or agency finds blight differently according to local conditions, though overall project areas were doing less well than cities as a whole (vacancies were higher, income and rents were lower).

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2000) Dye, R.F. & Merriman, D.F.	OLS, self selected treatment effect model	Illlinois, 235 northeastern Illinois municipalities (Chicago Metropolitan areas)	Local governments adopt TIF due to lack of revenue risk and to create economic activity.	Found evidence that cities that adopt TIFs grow more slowly than those that do not. No effect on municipal employment, evidence suggests any increase in a TIF area is a result of jobs shifting from one part of a city to the other.
(2011) O'Malley, M., & Whitaker, M.	Fiscal Analysis of RDAs and Governor's Proposal	California, (2006-07), 2006-07 data from California Redevelopment Association (CRA)	Analyzes Governor Jerry Brown's proposal to end redevelopment agencies, and CRA claims that redevelopment increases economic activity.	*Positive effects of RDAs:* redevelopment is a flexible tool that allows local governments to improve urban blight. RDAs also help build affordable housing. *Negative effects:* There is no evidence that redevelopment is increasing economic activities or employment rates, RDAs divert revenues from local governments and K-12 schools, increasing education costs. Very limited transparency and accountability.
(2005, May) Quigley, J.M., and Raphael, S.	OLS regression analysis using an index of California cities	California, Public Use Microdata Samples, 1990 and 2000. N=407 cities	The effect of land-use regulations on owner-occupied, and rental property values, and rates of new construction in California cities.	The results indicate that at a statistically significant level, that owner-occupied home price increased 3-percent in 1990, and 4.5-percent in 2000 for each additional regulatory measure. Rental housing prices increased in smaller increments though the results remained significant. The authors concluded that increasing land-use regulations does increase housing costs, and that new construction is lower in cities with more regulations.

Publication date, author	Type of Research	Location, Data Set, Year, Sample (N=)	Research Focus	Major Conclusions
(2010) Vogel, N.	Analysis of 13 years of spending from 12 agencies.	California, (FY 1995-96- FY 2007-08), HCD Data set on LMIHF N=12	Examines expenditures of 12 RDAs, and breaks down expenditures for FY 2007-08.	There is no assurance to taxpayers or government that the LMIHF is being used appropriately, and RDAs do not properly record how money used from the LMIHF is related to affordable housing. The law poorly defines what duties "planning and administration" include, and RDAs frequently ignore or bypass the definition. Data is messy, incomplete, and no longer audited by HCD. Required audits completed by CPAs are frequently incorrect. RDAs have spent money in illegal ways, such as by hiring a lobbyist, or code enforcement that is permissible only when directly linked to preserving affordable housing.
(2007) Yang, M.	administration costs compared to total agency expenses, identifies agencies that consistently spent 100% of their LMIHF on "planning and administration"	California, HCD Redevelopment Housing Activities	How RDAs are spending their Low-Mod funds, specifically those that spend overwhelmingly on "planning and administration costs."	Five RDAs consistently spent 100% of their Low-Mod funds on planning and administration costs, fewer RDAs are spending 100% of the LMIHF on planning and administration over time, annually fewer than 10% of agencies spend 100% of their LMIHF on planning and administration.

Appendix D

HCD Expenditure Definitions

Acqusition	Consists of: • Acquisition expenses • Disposal Costs • Land Purchases • Operation of acquired properties • Other • Relocation Payments • Site Clearance Costs
Construction	Construction of new housing
Debt Service	Consists of: • Debt issuance costs • Debt principal payments • Interest expenses • Other (unspecified)
Improvements	No specified definition
Mobilehome	Maintenance of mobilehome parks
Other	The nebulous category "Other" consists of everything from lawsuit settlements to ERAF or SERAF passthroughs: • Settlements • Loans to developers • Loans for water • First Time Buyer assistance • Loan restructuring • City Administrative costs (ie-Menlo Park) • County Administrative Costs (i.e.-Hemet) • Housing Grants • Operating transfers to the General Fund • County pass throughs • State take-away from RDAs • Operating transfers • Land and building rental • MHA contracts • Legal • Agency Housing staff • Code Enforcement • Removal of substandard housing and asbestos • Loss of sale on land held • Increases in reserves for rehabilitation loans • Old bond debt service • Landscaping fees • Abatement Programs • Acquisition, rehabilitation, and resale • Blight abatement costs • Bad debt • Lead based grants • Infill housing loans

	• Capital Improvement and Outlay • Childcare centers • Closing costs • Community Contributions • Construction Loans • Consultant fees • Contributions to cities, counties, or non profits such as Habitat for Humanity • Homelessness assistance • Flood housing assistance • Maintenance loans • Developers fees • Expansion studies • Dumpster programs • Facility improvements • Fair housing programs • Interest expenses
Planning and Administration	• Administration costs • Other • Planning, survey, and design • Professional service • Indirect non-profit costs
Preservations	Preservation of at-risk units
Rehabiltation	Non-substantial rehabilitation: water heaters, etc. does not matter if home is qualified as “affordable,” usually goes to current residents. Substantial rehabilitation: if you increase the quality/value of the home or otherwise move it to a higher “echelon” of affordability you cannot get credit for inclusionary
Subsidies	• First time home buyer down payment assistance program • Rental subsidies • Other • Purchase of affordability covenants

Appendix E

Correlation Tables

	Percentage of households paying over 35% income towards rent	Affordable units/all housing units	RDA Expenditures/all housing units	Acquisitions	Construction	Debt Service	Improvements	Mobile homes	Planning and Administration
Percentage of households paying over 35% income towards rent	1								
Affordable units/all housing units	0.0014	1							
RDA Expenditures/all housing units	-0.3354	0.1646	1						
Acquisitions	-0.0428	0.0446	0.0072	1					
Construction	0.0353	0.0245	-0.0263	-0.0809	1				
Debt Service	0.0782	0.0434	0.0079	-0.1635	-0.1463	1			
Improvements	0.0635	-0.0453	-0.0114	-0.0575	-0.0550	-0.0624	1		
Mobile homes	0.0426	-0.0042	-0.0114	-0.0550	0.0712	-0.0724	-0.0287	1	
Planning and Administration	-0.0710	-0.0860	-0.0941	-0.2475	-0.2006	-0.2822	-0.1142	0.0071	1
Preservations	-0.0482	0.0029	-0.0111	-0.0408	-0.0129	-0.0508	-0.0285	0.0175	-0.0159
Rehabilitation	0.0525	0.0475	-0.0285	-0.1232	0.0042	-0.1990	-0.0466	0.0234	-0.0524
Subsidies	-0.0164	0.0351	-0.0297	-0.1627	-0.1186	-0.2442	-0.0990	0.0471	-0.1610
Transfers	-0.0943	-0.0370	0.3652	-0.0878	-0.0959	-0.0323	-0.0511	-0.0399	-0.1245
Median Income	-0.3034	0.0256	0.0361	0.1019	0.1125	-0.0530	-0.0881	-0.0264	-0.0288
Median Age	-0.1858	0.0290	0.0502	-0.0589	0.0124	-0.0688	0.0051	0.0046	0.0836
Unemployment Rate	0.1406	0.0422	-0.0366	-0.0445	-0.0321	-0.0317	0.0100	0.0346	0.0018
Rate of Poverty	0.1928	0.0512	0.0052	-0.0558	-0.0814	0.0794	0.0570	-0.0171	-0.0010
Rate of Wealth	-0.3174	0.0493	0.0147	0.0799	0.0997	-0.0173	-0.0983	-0.0192	-0.0340
Percentage of adults with some high school education	0.2723	-0.0239	0.0318	-0.0450	-0.0859	0.0481	0.0733	0.0115	0.0097
Percentage of adults with some college education	-0.1223	-0.0385	-0.1374	0.0491	0.1458	-0.1064	-0.0565	0.0151	0.0043
African American Households	0.1060	-0.0042	-0.0098	0.0766	0.0178	0.0765	0.0451	-0.0388	-0.1423
Native American Households	0.0789	-0.0058	-0.0277	0.0724	0.0329	-0.0646	0.0225	-0.0060	-0.0443
Asian Households	-0.0939	-0.0547	-0.0177	0.0926	0.0339	-0.0279	-0.0592	-0.0538	-0.0341
Latin/Hispanic Households	0.1258	0.0571	0.0973	0.0059	-0.1426	0.1134	0.0434	-0.0072	-0.0428

	Preservations	Rehabilitation	Subsidies	Transfers	Median Income	Median Age	Unemployment Rate	Rate of Poverty	Rate of Wealth
Preservations	1								
Rehabilitation	0.0205	1							
Subsidies	0.0363	-0.0992	1						
Transfers	-0.0295	-0.0977	-0.1159	1					
Median Income	-0.0103	-0.1106	0.0660	-0.0239	1				
Median Age	0.0130	-0.0627	0.0590	-0.0023	0.5039	1			
Unemployment Rate	-0.0205	0.0949	0.0045	0.0394	-0.6345	-0.5689	1		
Rate of Poverty	-0.0086	0.0379	-0.0711	0.0736	-0.7918	-0.5999	0.7230	1	
Rate of Wealth	-0.0111	-0.1167	0.0656	-0.0270	0.8725	0.5661	-0.5464	-0.5648	1
Percentage of adults with some high school education	0.0343	0.0952	-0.0675	0.0043	-0.5962	-0.3289	0.4196	0.3289	-0.7115
Percentage of adults with some college education	0.0183	-0.0202	0.0952	-0.1694	0.6992	0.6505	-0.6144	-0.7499	0.6263
African American Households	-0.0071	0.0120	-0.0417	0.0281	-0.1237	-0.1630	0.1056	0.1034	-0.1634
Native American Households	0.0915	0.0784	-0.0304	-0.0863	-0.3424	-0.0335	0.2575	0.2209	-0.2851
Asian Households	-0.0407	-0.0779	0.0170	0.0572	0.3736	0.2211	-0.3127	-0.3321	0.2604
Latin/Hispanic Households	-0.0289	0.0181	-0.0603	0.1458	-0.5556	-0.6859	0.5071	0.5905	-0.5337

	Percentage of Adults with some high school education	Percentage of adults with some college education	African American households	Native American households	Asian households	Latin/Hispanic households
Percentage of Adults with some high school education	1					
Percentage of adults with some college education	-0.5062	1				
African American households	0.2146	-0.0691	1			
Native American households	0.3405	-0.1082	-0.0327	1		
Asian households	-0.3054	0.3101	0.0358	-0.2540	1	
Latin/Hispanic households	0.3586	-0.8626	0.0214	-0.0346	-0.3320	1

Appendix F Szroeter's Test for Heteroskedasticity

Szroeter's Test For Heteroskedasticity	
Variable	**p-value**
Affordable units built divided by total housing units in the city	0.2776
Total expenditures divided by total housing units in a city	0.1866
Percentage of expenditures spent on acquisition	0.6082
Percentage of expenditures spent on construction of new units	0.1329
Percentage of expenditures spent on debt service	0.6632
Percentage of expenditures spent on improvements	0.1335
Percentage of expenditures spent on mobile home parks	0.8831
Percentage of expenditures spent on planning and administration	0.0691
Percentage of expenditures spent on preservation	0.2971
Percentage of expenditures spent on rehabilitation	0.1288
Percentage of expenditures spent on subsidies	0.7703
Percentage of expenditures spent on transfers	0.8101
Median age of a city	0.1661
Unemployment rate	0.2713
Poverty Rate	0.5001
Percentage of wealthy households	0.0143
Adults with a high school education	0.266
Percentage of African Americans	0.4992
Percentage of Native Americans	0.6715
Percentage of Asians	0.0224
Percentage of Latin/Hispanic descent	0.73

Appendix G

Acronyms

AG	Attorney General
CRA	California Redevelopment Association
DDA	Downtown Development Authority
EDI	Economic Development Incentives
EIR	Environmental Impact Report
FY	Fiscal Year
GOB	General Obligation Bonds
HCD	California Department of Housing and Community Development
• LMIHF • L&M Fund • Low-Mod Fund	Low- and Moderate Income Housing Fund
RDA	Redevelopment Agency
SCO	State Controller's Office
SERAF	Supplemental Educational Revenue Augmentation Fund
TIF	Property Tax Increment Financing
TIFA	Tax Increment Financing Authority

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