

FINANCING ECONOMIC DEVELOPMENT IN POST REDEVELOPMENT CALIFORNIA

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Abstract
of
FINANCING ECONOMIC DEVELOPMENT IN POST REDEVELOPMENT CALIFORNIA
by
Andrew Joseph Sturfels

In February 2012, the legislature abolished the state's redevelopment program. Local redevelopment agencies had participated in a myriad of economic development activities. Along with the dissolution of these entities, local officials lost the ability to use tax increment financing to fund projects. In the aftermath of these actions, municipal leaders are struggling to determine how they will finance future economic development and infrastructure.

In this thesis, I provide an in-depth review of economic development activities once financed by RDAs, as well as remaining financing techniques local governments have at their disposal. I determine which financing mechanisms still exist that municipalities can use to complete economic development activities, and how each tool fits into the myriad of local economic development activities. Using a qualitative criteria alternatives matrix analysis I provide a matrix of options that pairs funding mechanisms with economic development activities. To evaluate each combination, I consider four criteria that need to be present in order to achieve success.

This analysis underscored two important points. First, none of the current financing mechanisms have the same flexibility that existed with TIF through RDA. Second,

financing mechanisms existed for nearly all of the economic development activities evaluated.

_____, Committee Chair
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Date

DEDICATION

I would first like to thank my wife Nichole, who every day encourages and challenges me to live life to the fullest and be the best I can possibly be. Her support, encouragement, and sacrifices allowed me to succeed. Nichole, you are my best friend and soul mate. You have my love always and all ways.

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Chapter 1

INTRODUCTION

Economic development in California used to be easy. Local redevelopment agencies (RDA) were the engine that drove economic development activities in a majority of California cities. The state's Community Redevelopment Law (CRL) provided over 400 California cities and counties with a comprehensive program to rehabilitate blighted areas, spur economic development, and build upon state housing policies (State Controller, 2011). Armed with the power to make large investment decisions without voter approval and a significant source of funding, RDA encouraged economic development through direct support to businesses, indirect improvements to local infrastructure, workforce development, and affordable housing.

On February 1, 2012, the state legislature abolished redevelopment agencies after 67 years of existence. In eliminating redevelopment agencies, the legislature neglected to provide a legally defensible alternative for cities to accomplish economic development goals. In the future, cities will have to decide how to structure, organize, and finance local economic development strategies without redevelopment. This thesis will consider which financial tools still exist that municipalities can use to complete economic development activities, and how each tool fits into the myriad of local economic development activities. I will provide cities with a matrix of options that pairs funding mechanisms with economic development activities. To evaluate each combination, I will consider four criteria that need to be present in order to achieve success. The resulting

product will be a tool for cities to use as they begin to determine how to continue current economic development activities and achieve future economic goals.

This thesis as a whole will discuss why losing the CRL is a significant change for cities, explain the methods used in determining matches between financial tools and economic activities, present a matrix of solutions, and provide analysis and recommendations for moving forward. The document is organized as follows. The remainder of chapter one will explain the importance of this research by describing why RDA were an important part of local economic development and how they were eliminated. In chapter two, I will categorize various types of economic development activities that cities may use to achieve their strategic goals. Then I will discuss the current financing tools available to municipalities. Chapter two will conclude with a discussion on analytical methods and summarize the four criteria used in the analysis.

In chapter three, I will provide a qualitative matrix that considers financing options for each activity based upon the criteria. In chapter four, I will summarize the work completed, draw upon recommendations for future research and discuss upcoming policy issues that result from this analysis.

The Beginning of Redevelopment

In 1945, the state legislature established the California Community Redevelopment Act (CCRA) in response to a national movement to remedy urban blight plaguing many California cities. The legislature believed that providing local control and flexibility would allow communities to better remedy blight. The original statute provided cities and counties with a vehicle to create local redevelopment agencies that

had the authority to acquire property (and use eminent domain to do so), develop and sell property, apply for federal grants, and borrow from the state and local governments to finance operations (Coomes, 2009). Eminent domain was a controversial feature of redevelopment, as it allowed local agencies to force the sale of property from individual owners.

However, the initial law left out a key component that hindered the appeal of forming an RDA. Although RDA could borrow from other governments, they did not have the ability to finance larger projects. In the formative years, the Federal Housing Act of 1949 provided funding for projects through grants (Coomes, 2009, p. 3); however, federal funding usually required local governments to provide matching funds. Local governments could not afford to fund matching grants through their general funds. Instead, they attempted to finance matching funds through voter approved initiatives. After many cities were unable to obtain voter approval for the matching funds, the state decided to take action to provide a more stable revenue source for redevelopment agencies (Coomes, 2009, p. 4).

In 1952, the state authorized the use of Tax-Increment Financing (TIF) financing by RDA. TIF provided a steady stream of revenue to RDA and allowed them to bond against future property tax revenues. Increases in property tax revenues, directly tied to increases in assessed value, would have normally been divided among cities, counties, school boards, and special districts. With TIF, all of the additional revenue produced in an agency defined project area would now flow back to the RDA. Equally important, using TIF did not require voter approval.

In 1976, the state legislature added another layer to RDA responsibility requiring RDA to set aside 20% of TIF generated revenues for development of affordable housing (Schuk, 2011a). By 1976, redevelopment agencies had all the tools necessary to successfully combat blight within California communities. They had the power to use eminent domain, to buy and sell property, to undertake massive projects without voter approval, and to finance any project based upon a guaranteed future revenue stream.

In 1979, California voters approved Proposition 13. Proposition 13 made significant changes to California property tax law. Most significantly, Proposition 13 capped property taxes for homeowners at 1% of the purchase price, and imposed strict limits on the assessed value of property. As a result, the pool of property tax money available to cities, counties, schools, and other local agencies became much smaller. RDA suddenly became a significant source of revenue for both cities and counties. The battle over remaining property taxes began. In an effort to capture revenue, RDA popped up in cities around the state. Between 1975 and 1984 RDA revenue increased by two and a half times the 1975 baseline (Coomes, 2009, p. 5). With every new agency and project area developed, tax revenues that otherwise would have been allocated to other entities now diverted to RDA bank accounts.

The growth of redevelopment agencies, coupled with the increased assessed value of land in RDA project areas, has resulted in a significant revenue shift at the local level. RDA, which 35 years ago received 2% of total property tax revenue, in the 2010-11 fiscal year received almost 12%. In 2008, TIF generated over \$5.7 billion in property tax revenue statewide (LAO, 2011). RDA activities have enabled significant gains in

affordable housing units, job creation, and infrastructure improvements across the state. From 2006-07, California redevelopment officials claimed to have generated \$40.8 billion in economic activity in through the generation of goods and services (CRA Factsheet, 2009). The State Controller's Office published information provided by RDA across California that suggesting they were responsible for creating over 310,000 jobs between 2000 and 2010 (State Controller, 2011, p. 24).

However, RDA have not been a complete success. A 1998 report by the Public Policy Institute of California determined that RDA were responsible for creating only 51% of the TIF revenue they received. Perhaps more importantly, in the eight RDA project areas that saw the fastest growth, over half the land was vacant. The report questioned whether RDA were fulfilling their purpose of redevelopment or merely assisting in general development (Dardia, 1998). RDA have also received criticism for the types of projects they funded. Sacramento's RDA came under scrutiny in 2010 after providing \$5.9 million to subsidize the building of a dance club, pizza restaurant, and mermaid bar downtown on dilapidated K Street (City of Sacramento, 2011).

The significant portion of revenue directed towards RDA, along with the questionable actions and results of some local agencies projects, set the table for RDA reform and eventually their demise. A gridlocked state legislature coupled with strong lobbying efforts from the California Redevelopment Association made true reform impossible. To make matters worse, the state was not properly managing its fiscal responsibilities. Over the years, state legislators raided redevelopment agencies' funds to cover state general fund budget deficits. In 2010, the California Redevelopment

Association launched a successful initiative measure, Proposition 22, which made it unconstitutional for the state to borrow from redevelopment funds. Just a year later, the state found itself in another budget crisis, and with a new governor, RDAs suddenly found themselves on the chopping block.

Budget Crisis Forces Change

California entered the 2010-11 fiscal year with a structural budget deficit of over \$26.6 billion (Governor's Budget Summary, 2012). Governor Jerry Brown's January 2011 budget proposal include realignment of many services, including public safety and mental health. It also included a proposal to ask voters to temporarily extend the sale tax and vehicle license fee increases that were set to expire in 2011. Finally, the last major component was eliminating both RDA and local enterprise zones. By eliminating RDA, tax revenues that previously went to the RDA would now go back to school districts, cities, counties, and special districts, resulting in a significant funding shift from local government to the state's general fund. As a result the state would no longer have to backfill lost revenue to these local agencies. To make up for the loss of RDA, the Governor proposed lowering the vote threshold to 55% for local bonds (Misczynski, 2011).

Changing the voter threshold for local bonds and putting a vote to raise taxes on the ballot would require a 2/3-vote in both houses of the legislature. As the budget deadline came closer, it was clear that the Governor would not be able to get the Republican support necessary to pass the measure (Goldmacher, 2011). The legislature provided an alternative solution that garnered both revenues from redevelopment and

additional local flexibility to continue with redevelopment activities. Lawmakers created a bill package that required a majority vote. In the final days of budget negotiations the legislature passed ABX1 26, which eliminated redevelopment agencies (Ibele 1, 2011a). To provide some type of option for city governments to continue funding redevelopment projects, the legislature also passed ABX1 27, which created an alternative program similar to the CRL, but with more controls (Ibele 2, 2011b). ABX1 27 gave RDA a choice to either opt in or opt out of the new program. If a city wanted to continue with redevelopment, it would have to opt-in. Opting-in also meant paying a significant annual fee to the state. If a city did not want to continue with redevelopment, or did not want to pay the fee, it could choose instead to opt-out. In this case, the RDA must disband. Local officials would have to pay off any existing debts, and remaining funds would be redistributed to other local governments. The legislature, in its best attempt to reform redevelopment, included what cities called a ransom payment to help cover the state's budget deficit.

The Judicial Branch Weighs In

The cities, outraged over the abolishment and unhappy with alternative schemes payments to the state decided to sue the state of California over the constitutionality of both bills. The California Redevelopment Association partnered with the League of California Cities in petitioning the court. Their arguments rested on Proposition 22. Proposition 22 made it unconstitutional for the state to borrow or take funds from transportation, redevelopment, or local government projects (Voter Guide, 2010). The California Redevelopment Association (CRA) argued that in the passing of Proposition

22 the state lost the authority to take funding away from redevelopment agencies (Supreme Court, 2012). The CRA believed this made it unconstitutional for the legislature to abolish redevelopment, because in doing so the state took away redevelopment funding. Secondly, the CRA argued that Proposition 22 also made it unconstitutional to require a fee payment to the state to continue redevelopment activities. The California Supreme Court agreed to hear the case.

On November 10, 2011, the court heard oral arguments from both parties. During oral arguments, the plaintiff's attorney Steven Mayer said that the worst possible outcome for his clients (redevelopment agencies) would be for the courts to find ABX1 26 constitutional and ABX1 27 unconstitutional (Cal-Channel, 2011), as this result would mean the end of redevelopment completely. Mayer believed that 90% of local redevelopment agencies would rather share TIF revenue with the state than dissolve (Dolan & Garrison, 2011). The voluntary program, although the cities did not like it, was still a preferred option compared to having no redevelopment.

A month after hearing oral arguments, the Supreme Court rendered its decision. Mayer's worst fears came true. The court agreed that Proposition 22 did make it unconstitutional for the state to take payments from cities through the voluntary program provided by ABX1 27. The court did not agree, however, that Proposition 22 eliminated the power of the legislature to end a program it created, and therefore validated the constitutionality of ABX1 26 (Supreme Court, 2011). Redevelopment was dead.

Chaos Ensues

The Supreme Court decision was the worst possible outcome for California cities. By suing the state over the fairness of the choice to opt-in or opt out, cities lost the ability to have any type of redevelopment program. As a result, all redevelopment agencies dissolved on February 1, 2012. Cities did not anticipate this result. Although they did not like the “ransom” payment, they determined that losing redevelopment would be more detrimental to their local community than having to pay the annual fee. As a result, many cities had already publicly decided to opt in to the new voluntary program. San Diego’s city council voted unanimously to pay over \$69 million to participate in the program for the first year (Showley, 2011). Los Angeles agreed to pay over \$97 million to participate in early August (Brasuell, 2011). Many other cities of various sizes followed suit.

In the aftermath of the Supreme Court Decision cities rushed to deal with the legal ramifications to end their redevelopment agencies. Dissolving RDA meant cities had to determine which organization should become the successor agency to the RDA, how to disband the RDA’s assets, what to do with RDA staff, and how to manage the completion of current projects. In focusing on these short-term decisions, cities have overlooked the larger question; how are they going to continue to fund economic development? Tax increment financing is no longer an option. There are other means to finance economic development, but doing so requires a more piecemealed approach. Economic development activities will need to match with specific projects. Financing tools often overlooked because TIF via RDA provided an easier alternative will now have to be considered.

Governor Jerry Brown has made it clear that he has no interest in delaying the death of redevelopment (Van Oot, 2012). Senate President Pro Tem Darrel Steinberg has stated that the goal is to focus on providing cities with new tools to fund economic development (Van Oot, 2012). However, cities cannot expect a state legislative solution in the immediate future. Any solution that does become available will not be nearly as appealing as the previous CRL. In the meantime, cities are left to figure out how to maintain the types of economic development activities that once rested within their local RDA.

The rules to financing economic development have changed. Cities must now reassess their approach. This thesis aims to assist in that process.

Chapter 2

LITERATURE AND METHODS

I present this chapter in three sections. First, I will define the term local economic development and describe six categories of local economic development activities previously performed by RDA. Then I will review eight financing methods local governments currently have at their disposal. As previously mentioned, I could not find academic research that focused on financing municipal economic development. As a result, this thesis does not provide a traditional literature review. I will instead incorporate specific examples of economic development activities previously performed by RDA throughout the discussion on economic development activities. In describing municipal financing methods, I will rely on legal code and other non-research sources to build a basis for understanding.

In the final section of this chapter, I will explain the criteria alternatives matrix methodology used and discuss why I chose this method over other methods of analysis. I will also describe and define the criteria used to determine the applicability of each financing method to each category of economic development activities.

Defining Economic Development

Economic development is the completion of activities that lead to job growth, job development, or job stability (Blakely, 1989). Local economic development includes strategies implemented by local governments in partnership with local organizations to promote job growth and employment (CALED, 2012). While broad, both definitions center around the ability of government to provide a climate that is conducive to

economic growth. Over the last 50 years, local government strategies for economic development have shifted dramatically. Initially, local economic development activities focused on providing monetary incentives to businesses, usually in the form of tax incentives or subsidies (Greenwood and Holt, 2010). This singular method of economic development is now just one of many economic development strategies used today.

The world has changed significantly since the early days of economic development strategy. Globalization has changed the way the world does business. Technology innovations provide instant and accurate information to businesses allowing for more informed decision-making. While such innovations have led to new job creation, they have also resulted in a global competition for securing jobs. As a result, cities have broadened strategies used to encourage economic development within their boundaries. Job training and affordable housing programs provide a qualified and stable workforce. Infrastructure improvements and public space beautification efforts now help lure businesses to communities that provide superior amenities and services. Cities not only have to develop competitive advantages, but market those advantages effectively to attract the type of investment needed to sustain economic growth. However, local economic development is more of a movement than an established field (Blakely & Bradshaw, 2002). There is no one theory or strategy for undertaking economic development. Well-known methods of spurring economic development sometimes fail, and discovery of new successful methods is common. Successful economic development requires cities to develop a comprehensive strategy that considers their goals and unique

advantages. Cities then can choose from a plethora of economic development activities based upon their strategy.

Redevelopment Agency Supported Economic Development Activities

Economic development activities varied greatly among California's RDA. Each agency developed an individual strategy for economic development based upon specific community needs. While there is unlimited information available on specific economic development activities initiated by RDA, I failed to locate any research categorizing these activities into descriptive groupings. For simplicity, I have placed these activities into five categories:

- Targeted business incentives
- Improvements to public lands
- Infrastructure with revenue streams
- Marketing and tourism promotion
- Affordable housing development

Targeted business incentives provide direct financial incentives to businesses for locating in a specific area and can take a variety of forms. RDA used their purchasing power to buy-up unused or underutilized urban land. RDA could incentivize businesses by selling land that the RDA owned below market value. Often this land also underwent significant improvements or environmental hazard remediation between the time of purchase by the RDA and the time of the sale. For example, the West Covina Redevelopment Commission purchased a closed landfill site, partnered with the state to properly remediate the site, then helped Big League Dreams ballpark company develop a

facility on the grounds (City of West Covina, 2012). RDA also assisted developers by paying exaction and impact fees charged by the city and by offering grants for a variety of purposes, from opening new businesses to façade improvements. The city of Healdsburg offered incentives created to encourage restaurant and hotel businesses. Incentives included a 75% reduction in water and sewer impact fees for restaurants and a 40% reduction for hotels that installed the latest water efficient fixtures (City of Healdsburg, 2012).

RDA spent significant revenues on improving public space. Investment in dilapidated public spaces helps lure potential businesses and improve property values in the area. Examples of public space investment include building sidewalks, repairing old roads, streetscape enhancements, and open-space beautification. Richmond's redevelopment agency completed a streetscape project on 23rd Street to improve walkability, calm traffic, and promote a sense of identity that would help lure businesses and encourage private investment (City of Richmond, 2012). RDA could also pay for infrastructure improvements to undeveloped portions of a project area. Paying for the development of water and sewer lines to new areas allowed for the creation of business parks and new industrial centers that could occur without affecting customers' rates. West Sacramento recently financed a significant infrastructure improvement project in the Bridge District. Using redevelopment funds, the city built roads, installed sewer, water, and electrical lines, built sidewalks, installed street lighting, constructed a water storage facility, and developed plans for a future park (West Sacramento, 2012)

RDA also developed projects that generated other revenue streams. By collaborating with targeted businesses, RDA could finance certain types of public buildings like convention centers and parking lots. Owned and operated by the RDA, these facilities provided immediate benefits to hotels and surrounding retail businesses. Profits from their operation would go back to the RDA to either fund future projects or pay back the debt incurred from the project. Santa Clara's redevelopment agency funded the Santa Clara convention center, which led to the addition of a Hyatt hotel and other businesses in the area (Schuk, 2011b).

Marketing and tourism promotion is a key component in business attraction for many municipalities. RDA have participated in regional partnerships, paid for local marketing efforts associated with attracting new businesses, and assisted in the promotion of tourism. The Oceanside Redevelopment Agency worked to increase tourism in their community by assisting in the building of the Oceanside Beachfront Resort Hotel, which combined a boutique hotel, fractional timeshare units, and retail space on underused property. The agency also used redevelopment funds to build new restroom facilities along the beachfront (City of Oceanside, 2012).

Assisting in the creation of affordable housing was a key feature of the CRL. Affordable housing creates a stable working class and helps diversify communities, which then broadens the pool of businesses interested in the community. California's population grew 10% from 2000-2010 (Census 2010). To accommodate the growing population, RDA played a significant role in housing development. In 2009, California

RDA constructed over 6,500 new housing units, renovated over 5,000 units, and provided financial assistance to over 4,500 households (Campora, 2011).

Municipal Financing Mechanisms

There are a number of financing tools available to municipal governments as a means of financing local economic development. Abbot, Detwiler, Jacobson, Sohagi, and Steiner (2001) provide succinct descriptions of current municipal financing methods, including:

- General obligation bonds
- Revenue bonds
- Benefit assessment bonds
- Mello-Roos community facilities district bonds
- Limited obligation bonds
- Infrastructure financing districts
- Integrated financing districts
- Certificates of participation

The next section will summarize the main components of each financing tool.

Bonds

There are many types of bonds available to municipalities. RDA dismantled, all California bonds now require voter approval; however, the differences between each bond are the level of voter approval required and the revenue source that supports the bond. The source of bond revenue has significant implications on both the bond cost and the likelihood that it will receive voter approval. There are many types of bonds

available, including general obligation bonds, revenue bonds, benefit assessment bonds, Mello-Roos bonds, and limited obligation bonds.

General obligation bonds use revenue generated from an ad valorem property tax rate that is in addition to the 1% property tax rate set by Proposition 13 on property owners. Local governments may use general obligation bonds to construct, acquire, and make improvements to real property including public buildings, roadways, school facilities, and equipment (CDIAC, 2008). Because general obligation bonds require 2/3-voter approval and because the revenue stream is tied to real property, they are the most secure type of bond financing. A general obligation bond is backed by a guarantee to levy ad valorem property taxes at a level sufficient enough to pay the interest and principal on the bonds each year (CDIAC, 2006). As a result, general obligation bonds have lower interest rates, lower overall costs, and higher bond ratings (Abbot, Detwiler, Jacobson, Sohagi, Steiner, 2001).

Revenue bonds back public works projects, and rely on future revenues from customers to pay for the bond. Revenue bonds require majority-voter approval. Cities, counties, municipal or public corporations, or districts that are authorized to operate any enterprise can administer them (California Government Code, 2012). Revenue bonds are also used for financing stadiums, airports, parking garages, and other public facilities that generate revenue.

Benefit assessment bonds use revenue generated by weighted charges on property owners that receive the benefit of the project. The voting process also includes a weighted ballot for approval based on who receives the benefit. Benefit assessments

allow for equitable distribution of costs based on who receives the benefit. Benefit assessments occur within a defined area, called a benefit assessment district. The financial markets that back revenue assessment bonds believe benefit assessment bonds are riskier than other municipal bonds and do not rate or insure them. As a result, they often come with higher interest rates and greater long-term costs (Senate Governance & Finance Committee, 2011).

A local agency can issue a Mello-Roos Act bond for use within a created Community Facilities District (CFD). Creation of a CFD occurs through a 2/3-vote of landowners (if 12 or less) or a vote of all registered voters within the proposed district. Creation of a CFD allows for collection of special tax imposed upon all property owners within the district. Revenue from the special tax can be bonded against to finance public infrastructure projects and acquisition. During the creation of a CFD, property owners or registered voters within the district can also vote for a portion of the special tax to go towards certain services, including police, fire, and paramedic services, maintenance of parks and open space, flood and storm protection services, and environmental cleanup and remediation (Bort, 2006). Upon approval of registered voters only, revenue from the CFD special tax can go towards recreation program services, library services, operation and maintenance of museums and cultural facilities, and maintenance for elementary and secondary schools (Bort, 2006).

Limited obligation bonds, which require 2/3-voter approval, require the city to pledge future revenue from either property taxes or local sales taxes. Repayment of bond funds comes from a specified source of municipal revenue. As a result, the issuing

agency is responsible for the debt, and the issuance of the debt directly effects the agencies credit.(Abbot, Detwiler, Jacobson, Sohagi, Steiner, 2001). Limited obligation bonds provide revenue for the same types of services as a general obligation bond does.

Financing Districts

There are two types of financing districts that cities may create. Infrastructure Financing Districts are the only entity outside of RDA that allows for the use of TIF. However, an Infrastructure Financing District is not allowed to divert TIF from schools, a significant difference from RDA. Infrastructure financing districts bond against future increment revenue to provide revenue for projects. There are two significant hurdles to implementing an Infrastructure Financing District that deter from its use. First, the law requires every local agency affected by the shift in property tax revenue from TIF to agree to put their revenue to that purpose. This type of interagency agreement is difficult to achieve, especially in areas with many overlapping agencies. If interagency parties agree, then three votes of the citizens take place; a 2/3-voter approval to setup the district, a two-thirds voter approval to approve the bond, and a majority vote to approve the district's appropriation limit (Senate Governance and Finance Committee, 2001).

Integrated Financing Districts allow private investors to loan money to a city or to a developer to build the necessary infrastructure to get a new development project off the ground. Integrated financing districts pay back the investor through a one-time assessment placed upon the developments parcels that is contingent upon development beginning (California Tax Data, 2002). Once revenues start flowing from the assessment, the city repays the investor for the cost of infrastructure improvements. Integrated

financing districts are used in conjunction with other types of financing mechanisms, and are usually included with the vote required to create the other district. However, an integrated financing district is created by approval from the agency, and does not require a 2/3-vote (California Tax Data, 2002). Revenue from the contingent assessment may be used to pay back debt created by the other financing district.

Certificates of Participation

Certificates of Participation (COP) allow cities to raise capital by taking advantage of existing leases of property owned by a non-profit corporation or joint powers authority. Many public entities lease buildings from other public entities. In a COP, the organization which owns the property sells shares of the monthly lease revenues to investors in return for initial capital. The capital pays for improvements on the property. Revenue from COP can go towards improving or purchasing land, buildings, vehicles, and equipment. COP's have been used across California to finance many types of projects, including public buildings, school campuses, energy projects, golf courses, and marinas (Weist Law, 2010).

Methods and Criteria

Public policy analysts have many research tools to help them analyze and evaluate policy options. The purpose of this thesis is to provide municipal leaders with a decision-making tool that will assist them in choosing between multiple alternatives. A criteria alternatives matrix analysis (CAM) is the best approach to analyze the ability of current financing options to fund economic development activities previously performed by RDA. A CAM analysis is a tool used by policy professionals and economists to aid in

decision-making. CAM analyses use predetermined criteria to measure the relative performance of policy alternatives (Munger, 2000). Each alternative is evaluated based on its ability to meet decided-upon criteria, thus providing decision-makers with a clear picture of how each alternative meets their needs. Alternatives that meet the most criteria are considered the more favorable option.

CAM analysis does not provide a singular best alternative. Rather, it evaluates each alternative based upon criteria determined by the analyst. It is possible that multiple alternatives are viable options. Additionally, the criteria may or may not be weighted based upon its relative importance in the decision-making process. Because the purpose of this thesis is to provide a baseline analysis of currently available financing methods, each of the four criteria received equal weighting. Additionally, analysis can be either qualitative or quantitative in its approach, depending on the criteria used and the rationale for completing the analysis. This thesis will take a qualitative approach. Using qualitative analysis best suits the criteria and provides greater applicability as it does not constrain its findings to individual communities.

Earlier in this chapter, I identified five categories of economic development activities previously funded by RDA. I also identified eight financing methods currently available to municipalities. For each category of economic development activities, I will evaluate the applicability of each of the eight financing methods. I will evaluate each financing method on four criteria. The criteria are:

- Statutory purpose
- Political feasibility

- Municipal cost avoidance
- Functional capability

I will define each criterion, explain why it is important to consider, and describe how I will measure it. I will judge criterion in the CAM analysis independently of one another. Even if a project fails the statutory purpose test, I will still judge the other criterion based upon their definition.

It is important to note that cities across California face unique challenges and have unique advantages. The chosen criteria provide a baseline approach to considering each financing tool. Individual municipalities should carefully consider their strengths and weaknesses through the completion of a strategic economic development plan prior to determining a course of action.

Statutory Purpose

Statutory requirements limit the use of each financing tools. To that end, I will first evaluate whether the financing method is a legally viable option for each Economic development activity. Economic development activities that are legally acceptable uses for each financing tool will be marked with a check. If current statute for the financing method does not allow for the use of the economic development activity, I will mark it with an X.

Political Feasibility

Many local financing tools require voter approval for use. Political feasibility is an important consideration when choosing a financing method for an economic development activity. For the purposes of this study, I will consider voter approval

requirements as the indicator for political feasibility. Politically feasible financing methods will require no voter approval or only a simple majority vote for approval. Financing options that require a two-thirds vote or multiple votes are less politically feasible. I will mark politically feasible financing methods with a check, and will mark methods that are not feasible with an X. Because some financing mechanisms have multiple options for voter approval, mechanisms with conflicting choices will be marked with an equals sign.

Municipal Cost-Avoidance

Decision makers will favor financing methods that do not affect general fund revenues. Cities are responsible for providing police, fire, library, park, public works, and waste services to residents (ILG, 2009). After appropriating money to provide these services, municipalities have little discretionary revenue left to spend on economic development. To that end, I will define municipal cost-avoidance as projects that do not require direct municipal investment. Financing methods that use special taxes, assessments, and fees are more successful in achieving cost-avoidance than those that require general fund revenues or take away from future general fund revenues. If the financing method has no direct municipal costs, I will mark it with a check. If the financing method has direct municipal costs, I will mark it with an X.

Flexibility

Flexibility is important in economic development. Not all financing mechanisms allow for flexibility in use. I define flexibility as the extent to which a financing method can complete multiple projects with a single implementation action, or can finance both

infrastructure and operational costs. Flexible financing methods will allow for multiple projects to take place or for the financing to include both infrastructure and operational costs. I will mark methods that meet this criterion with a check. Inflexible options will only allow singular development projects to take place, and I will mark those with an X.

Conclusion

In this chapter, I have described six types of economic development activities previously completed by RDA. I have also defined eight financing methods local governments currently have available to them to pay for projects. I have outlined and described the use of a qualitative CAM analysis to evaluate each financing methods overall applicability to each economic development activity using four equally weighted criteria. Chapter three will provide the completed CAM analysis and describe the results.

Chapter 3

ANALYSIS

In this chapter, I will present and discuss the results of the completed CAM analysis. The results revealed that at least one of the eight financing mechanisms met all four criteria for four of the five economic development activities. For two of the economic development activities, public improvements and infrastructure with a revenue stream, half of the financing mechanisms successfully met all criteria. Providing targeted business incentives was the only economic development activity that failed to have any financing mechanism meet all four criteria. Three financing mechanisms failed to meet all four criteria for any economic development activity: general obligation bonds, limited obligation bonds, and infrastructure financing districts. Table 1 below summarizes the financing mechanisms that were successful for each economic development activity.

Table 1

Financing Mechanisms that met all criteria, by each Economic Development Activity

Targeted Business Incentives	No Financing Mechanisms
Public Improvements	Benefit Assessment Bonds, Mello-Roos Community Facilities Districts, Integrated Financing Districts, Certificates of Participation
Infrastructure with Revenue Stream	Revenue Bonds, Mello-Roos Community Facilities Districts, Integrated Financing Districts, Certificates of Participation
Marketing and Tourism Promotion	Certificates of Participation
Affordable Housing Development	Revenue Bonds, Certificates of Participation

Out of 40 individual tests between economic development activities and individual financing mechanisms, 12 tests met all four criteria. Additionally, 17 tests successfully met three of the four criteria. The two criteria least met were statutory fit and political feasibility. Half of the individual tests (20) failed to meet the statutory fit criteria, and 15 of the individual tests failed to meet the political feasibility test. Five of 40 matches failed to meet the municipal cost test (limited obligation bonds failed for all five activities), and all of the criteria, based on the definition of flexibility, met the flexibility criteria. I will begin this chapter by explaining the analysis. I will then highlight successes, failures, and near successes for each economic development activity.

The CAM Analysis

To test the criteria against each financing mechanism, I developed a series of tables for each economic development activity. Throughout the chapter, I provide individual tables for each economic development activity with discussion on each. A summary of all the results is at the end of the chapter. For each economic development activity, I tested the four criteria against each financing mechanism. In each table, the first column lists the financing mechanisms, and the top row lists the four criteria. When a financing mechanism successfully met the criteria for a given economic activity, I placed a check mark in the corresponding cell. When a financing mechanism failed to meet the criteria for an economic development activity, I placed an “X” in the corresponding cell. For some of the political feasibility tests, whether or not the financing mechanism met the criteria, depended on the implementation of the mechanism. Because

the answer was dependent upon its implementation method, I placed an equal (=) sign in the corresponding cell.

I tested each criterion independently of one another. For example, suppose a financing mechanism did not meet the statutory fit criteria for an economic development activity. This indeed was the case for half of the tests. Even though the economic development activity was not a legal use for the financing mechanism, I considered the other three criteria as if it were. By keeping the criteria independent of one another, the tables provide a few of tests that were nearly successful. I consider the tests that were nearly successful as areas of opportunity for leaders and decision makers at all levels of government. Changes in state law would result in more financing options meeting all four criteria.

Results

Targeted Business Incentives

Targeted business incentives were the only activity that did not meet all four criteria for any financing mechanism. Current law does not allow for any of the financing mechanisms considered to provide direct incentives for businesses building or relocating, thus the statutory fit test failed for each mechanism. Financing mechanisms can only provide capital for projects that directly affect public good. Municipal financing mechanisms must provide a tangible benefit to the public. Promoting job creation through direct incentives to businesses provides indirect benefits, but not all citizens benefit from a new business locating within their city. Revenue bonds, benefit assessment bonds, and Mello-Roos CFD met all criteria except the statutory fit test. The legislature could amend

the laws that govern these financing mechanisms to include targeted business incentives.

However, research shows these incentives do not provide long-term economic benefits.

Table 2 below shows the complete results for all targeted business incentive tests.

Table 2

Targeted Business Incentives

Targeted Business Incentives	Fits Statutory Purpose?	Politically Feasible?	Municipal Cost Avoidance?	Flexible in Application?
General obligation bonds	X	X	✓	✓
Revenue bonds	X	✓	✓	✓
Benefit assessment bonds	X	✓	✓	✓
Mello-Roos Community Facilities Districts	X	=	✓	✓
Limited obligation bonds	X	X	X	✓
Infrastructure financing districts	X	X	✓	✓
Integrated financing districts	X	=	✓	✓
Certificates of participation	X	✓	✓	✓

Public Improvements

Public improvement projects have four of the eight financing mechanisms that met all four criteria. The financing mechanisms that met all four criteria are benefit assessment bonds, Mello-Roos CFD, integrated financing districts, and certificates of participation. The success of both the Mello-Roos CFD and the integrated financing district depends upon their method of implementation. Both of these methods received an

equals sign for political feasibility, as the voting requirements are depend upon the method of formation.

Three financing mechanisms successfully met three of the four criteria. General obligation bonds and infrastructure financing districts only failed the political feasibility test. Revenue bonds failed only the statutory purpose test. Revenue bonds are for projects that have a direct revenue stream. Public improvements do not have a revenue stream. Limited obligation bonds only met two of the four criteria. Table 3 below shows the complete results for all public improvement tests.

Table 3

Public Improvements

Public Improvements	Fits Statutory Purpose?	Politically Feasible?	Municipal Cost Avoidance?	Flexible in Application?
General obligation bonds	✓	X	✓	✓
Revenue bonds	X	✓	✓	✓
Benefit assessment bonds	✓	✓	✓	✓
Mello-Roos Community Facilities Districts	✓	=	✓	✓
Limited obligation bonds	✓	X	X	✓
Infrastructure financing districts	✓	X	✓	✓
Integrated financing districts	✓	=	✓	✓
Certificates of participation	✓	✓	✓	✓

Infrastructure with Revenue Stream

Infrastructure projects that have a dedicated revenue stream found success with multiple financing mechanisms. Revenue bonds, Mello Roos CFD, integrated financing districts, and certificates of participation met all four criteria for this economic development activity. Intuitively, revenue bonds are the most logical choice for any project that results in a dedicated revenue stream. Revenue bonds are for projects that have direct revenue streams. However, the other successful financing mechanisms provide viable options as well.

General obligation bonds and infrastructure financing districts were nearly successful, failing only to meet the political feasibility test. Both of these financing mechanisms failed the political feasibility test because of the 2/3-voter approval requirement. Benefit assessment bonds were also nearly successful, failing the statutory fit test. Limited obligation bonds failed both the political feasibility test and the municipal cost avoidance test. Table 4 below shows the complete results for all infrastructure with revenue stream tests.

Table 4

Infrastructure with Revenue Stream

Infrastructure with Revenue Stream	Fits Statutory Purpose?	Politically Feasible?	Municipal Cost Avoidance?	Flexible in Application?
General obligation bonds	✓	X	✓	✓
Revenue bonds	✓	✓	✓	✓
Benefit assessment bonds	X	✓	✓	✓
Mello-Roos Community Facilities Districts	✓	=	✓	✓
Limited obligation bonds	✓	X	X	✓
Infrastructure financing districts	✓	X	✓	✓
Integrated financing districts	✓	=	✓	✓
Certificates of participation	✓	✓	✓	✓

Marketing and Tourism Promotion

A certificate of participation was the only financing mechanism that passed all four criteria for marketing and tourism promotion. Funds from a certificate of participation can purchase land, build facilities, and purchase equipment. Although funds cannot pay for direct marketing initiatives, they can fund the building of facilities that promote tourism within a community. For example, a city can expend funds from a certificate of participation on the purchase of land, the building of a museum on that land, and the purchase of the equipment needed to operate the facility. Certificate of participation funds can also fund the building of a visitors' center.

Five financing mechanisms met three of the four criteria for marketing and tourism promotion. General obligation bonds and Mello-Roos CFD failed the political feasibility test because of the 2/3-voter approval requirement. However, it is worth noting that through the 2/3-voter approval process of creating a new CFD, operations and maintenance costs of museums and cultural facilities may be included. Revenue bonds, benefit assessment bonds, and integrated financing districts failed the statutory fit test. The statutes governing these financing mechanisms do not allow for this type of economic development. Limited obligation bonds failed all criteria except the flexibility criteria. Table 5 below shows the complete results for all marketing and tourism promotion tests.

Table 5

Marketing & Tourism Promotion

Marketing and Tourism Promotion	Fits Statutory Purpose?	Politically Feasible?	Municipal Cost Avoidance?	Flexible in Application?
General obligation bonds	✓	X	✓	✓
Revenue bonds	X	✓	✓	✓
Benefit assessment bonds	X	✓	✓	✓
Mello-Roos Community Facilities Districts	✓	X	✓	✓
Limited obligation bonds	X	X	X	✓
Infrastructure financing districts	X	X	✓	✓
Integrated financing districts	X	=	✓	✓
Certificates of participation	✓	✓	✓	✓

Affordable Housing

Affordable housing development was a key component of redevelopment. One of the key concerns in the aftermath of the dissolution of RDA was how to finance affordable housing. The results show two financing mechanisms allow for the development of affordable housing. Both revenue bonds and certificates of participation passed all four criteria for affordable housing. The rental revenues received from affordable housing development support the revenue bond or certificate of participation. A city may issue a public enterprise revenue bond to finance affordable housing. Only majority voter-approval is required for revenue bonds, and no vote is required for use of the certificate of participation.

Four of the eight financing mechanisms successfully met three of the four criteria. General obligation bonds failed to meet the political feasibility test because of the 2/3-voter approval needed. Benefit assessment districts, Mello-Roos CFD, and integrated financing districts failed to meet the statutory fit test.

The other two financing mechanisms had multiple failures. Infrastructure financing districts did not meet the statutory fit test or the political feasibility test. Limited obligation bonds failed all tests except the flexibility test. Table 6 below shows the complete results for all affordable housing tests.

Table 6

Affordable Housing Development

Affordable Housing Development	Fits Statutory Purpose?	Politically Feasible?	Municipal Cost Avoidance?	Flexible in Application?
General obligation bonds	✓	X	✓	✓
Revenue bonds	✓	✓	✓	✓
Benefit assessment bonds	X	✓	✓	✓
Mello-Roos Community Facilities Districts	X	=	✓	✓
Limited obligation bonds	X	X	X	✓
Infrastructure financing districts	X	X	✓	✓
Integrated financing districts	X	=	✓	✓
Certificates of participation	✓	✓	✓	✓

Near Successes for some Financing Mechanisms

Many of the financing mechanisms were successful in three out of the four criteria. 17 of the 40 potential matches successfully achieved three of the four criteria (including those with '='). In each of these cases, failure was attributable to two criteria, statutory fit or political feasibility. General obligation bonds met three of the four criteria for all of the economic development activities, with the exception of targeted business incentives. General obligation bonds failed to meet the political feasibility criteria for all economic development activities because of the 2/3-voter requirement. Similarly, infrastructure financing districts failed to successfully meet all four criteria for any

activity because they could not meet the political feasibility criteria. Benefit assessment bonds could be a successful financing mechanism for all activities if they could meet the statutory purpose criteria.

Meeting the political feasibility test was difficult. Revenue bonds, benefit assessment districts, and certificates of participation were the only options that required less than 2/3-voter approval. Integrated financing districts (although they do not require a direct vote) are implemented in conjunction with other financing districts. As a result, their implementation is dependent upon a successful 2/3-voter approval of the other financing district.

Conclusion

In this chapter, I presented the CAM analysis. The results revealed that financing mechanisms currently exist for all of the economic development activities previously undertaken by redevelopment agencies with the exception of providing targeted business incentives. 12 of the 40 potential matches between financing mechanisms and economic development activities met all four criteria, and an additional 17 criteria met three of the four criteria.

Before conducting the analysis, I predicted I that in addition to targeted business incentives, marketing and tourism promotion and affordable housing development would be difficult to finance; however, this was not the case. Both revenue bonds and certificates of participation can finance the development of affordable housing. Future funds from either the sale or rent of the affordable housing pay for the initial capital. Similarly, funds collected within a Mello-Roos CFD may cover the operations and

maintenance costs of museums or cultural facilities, if specifically approved during a 2/3-voter approval process. Certificates of participation can finance the building of such facilities, as well as equipment used at these facilities.

The summary analysis at the end of the chapter provides the complete test results (See Table 7). The first column on the left lists the five economic development activities. The top row lists each of the eight financing mechanisms. I split corresponding cells into four quadrants, one for each criterion. Economic development activities and financing mechanisms intersect at a cell that describes the relative fit to each criterion. This view provides a complete picture of the overall match between all available financing mechanisms and economic development activities previously undertaken by RDA. The top left quadrant represents the first criteria, fit to statutory purpose. The top right quadrant represents the second criteria, political feasibility. The bottom left quadrant describes the third criteria, municipal cost. The bottom right quadrant represents the fourth criteria, flexibility. Criteria are marked the same as in the individual tables presented previously.

The results suggest that municipal agencies already have the necessary tools to continue financing economic development activities once financed through RDA by tax increment financing. The next chapter will consider the truth in this assertion, and discuss the implications of these results in the broader context of municipal economic development.

Table 7

Summary CAM Analysis

Quadrant Criterion Key: Top Left: Statutory Fit Top Right: Political Feasibility Bottom Left: Municipal Cost Bottom Right: Flexibility	General Obligation Bonds		Revenue Bonds		Benefit Assessment Bonds		Mello-Roos Community Facilities Districts		Limited Obligation Bonds		Infrastructure Financing Districts		Integrated Financing Districts		Certificates of Participation	
Targeted Business Incentives	X	X	X	✓	X	✓	X	=	X	X	X	X	X	=	X	✓
	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Public Improvements	✓	X	X	✓	✓	✓	✓	=	✓	X	✓	X	✓	=	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Infrastructure with Revenue Stream	✓	X	✓	✓	X	✓	✓	=	✓	X	✓	X	✓	=	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Marketing and Tourism Promotion	✓	X	X	✓	X	✓	✓	=	X	X	X	X	X	=	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓
Affordable Housing Development	✓	X	✓	✓	X	✓	X	=	X	X	X	X	X	=	✓	✓
	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓

Chapter 4

CONCLUSION

The dissolution of RDA has hurt local officials' ability to finance economic development. The structure and powers of RDA made it easy to finance most economic development activities within California cities. In California's post RDA era, municipal leaders will rely on financing tools that are limited in applicability and more difficult to implement because of voting requirements. In this thesis, I used a CAM analysis to evaluate the remaining financing mechanisms that local governments have in their toolbox. I used criteria that would reveal which financing mechanisms were viable alternatives to complete economic development activities once undertaken by RDA.

The results presented two important points. First, none of the current financing mechanisms has the same flexibility that existed with TIF through RDA. Second, financing mechanisms exist for nearly all of the economic development activities evaluated. Providing targeted business incentives is the only economic development activity that has no appropriate financing tool. However, even for some of the other tools that did have matches (e.g., affordable housing development or marketing and tourism promotion) the financing options available were limited to specific activities that focused on the construction of real assets. There are no financing mechanisms to fund the 'intangible' activities of RDA including direct marketing, business attraction, and development incentives.

Three themes surfaced during this research project. First, financing economic development will require extensive planning by municipal governments. Second,

economic development is squishy, and limited resources will require future economic development strategies to prove their value to a broader constituency. Third, changes in state laws could greatly enhance select municipal financing tools. This chapter will explore these three themes in the context of the results, suggest areas in which additional research should focus, and make recommendations for policy makers at all levels of government.

Economic Development Can Continue

The most obvious result of the CAM analysis is that financing mechanisms exist for economic development activities and can produce tangible results. Cities are still able to finance building roads, parks, sidewalks, city halls, sports arenas, and affordable housing developments. Cities can no longer use financing to provide direct incentives to businesses, engage in direct marketing, or attract businesses. Municipal leaders will have to make difficult decisions to determine which intangible activities they want to continue and why. For construction-based economic development activities, the challenge is not finding a method to finance future economic development, but to find the time, effort, and money needed to approve the financing. Municipal staff, community leaders, and elected officials will have to invest more time planning for economic development to be successful.

Seven of the eight financing mechanisms require some level of voter approval. Achieving voter approval requires significant effort from the municipality. Communication about project financing will need to be carefully developed, clearly articulated, and well publicized. Cities that struggle to maintain citizen trust will face

unique challenges to obtain voter approval. In many cases, citizen trust will closely correlate to the municipality's record of fiscal management. Cities will need to address current spending problems before looking forward to plan economic development activities.

Planning will be paramount to economic development within municipalities. Previously, TIF allowed an entire city area to undergo economic development projects. None of the financing mechanisms reviewed provides the breadth of activity that TIF did and none of these financing mechanisms are short term obligations. No city, regardless of the level of citizen trust in government, would consider or approve a new tax or fee to finance a project at every city election. Municipalities will have to make choices about activities that are most important to engage in and finance. With limited choices, municipal leaders will have a greater responsibility to ensure decisions match the needs of the community.

Cities will have to design local economic development strategies with involvement from municipal leaders, business leaders, and citizens. Collaboration and increased public-private partnerships will be necessary to implement new strategies. Municipal leaders will have to understand and accept that economic development will occur more slowly than before. In developing local strategies, municipal leaders will have to fully understand the landscape in which they operate. A more focused understanding of community needs will have to take precedent over elected officials' desires. If cities increase institutional knowledge of their community and economic development strategy,

it's likely they will make better decisions about economic development. One step to increasing knowledge on economic development is to make it less squishy.

Making Economic Development Less Squishy

Economic development is inherently squishy. No existing formula of activities guarantees successful economic growth within a community. One of the advantages of TIF for municipalities was that it allowed them to engage in many different activities that promote economic development within a project area. The major disadvantage was that no research showed which strategies worked. Similar methods, such as providing targeted incentives to business, were present in nearly all communities without any evidence that proved such incentives had a positive impact.

During development of this thesis, the Legislative Analyst's Office submitted a report to the legislature that identified the need for more certainty in economic development. The report concluded that there were tools to finance economic development, but there was little evidence or consensus on which economic development activities worked (LAO, 2012). The report cited concern for targeted incentives to businesses, suggesting they are ineffective and unnecessary. As one of the first economic development activities that municipalities engaged in, targeted business incentives appear to be no more than bribes that result in expensive short-term gains to communities. The problem with bribes is that they work, at least in the short term. As long as direct incentives continue to lure businesses, municipal agencies will continue to use them.

The LAO report also focused on regulatory reform as an area that policy makers should focus on to promote economic development. This recommendation is helpful for

state policy-makers, but does little to help municipal leaders responsible for implementing local economic development strategies. There are two strategies not mentioned by the LAO that are worth consideration by municipalities: (1) improving service delivery and (2) improving local vision.

Cities are responsible for providing a number of services to businesses, including permit review and approval, regulatory compliance, fee determinations, and utilities. In the private sector, efficiency is incredibly important. In the post-RDA California, many municipalities will not be able to offer direct business incentives. The only way to gain a competitive advantage over other cities will be to offer a level of service that is superior to others. Creating a culture of service within a municipal organization is hard. However, cities that can create a culture of service and build positive relationships with potential and existing businesses will likely achieve greater success than those who cannot.

To create a culture of service, a city must have a clear vision shared by municipal staff and citizens. Having a community vision is different from having an economic development plan. Simon Sinek (2009) suggests that people do not buy what you do, but why you do it. Few cities have a clearly defined vision that is visible not only through organization, but throughout the city as well. Cities' websites offer plenty of information about their economic development departments, but rarely explain why a city is different from its neighboring communities. From a properly defined vision, a city can then determine how it will work towards that vision and decide what specific action can be taken. This vision should all be visible by visiting the city's website to any business looking to start, relocate, or expand.

Researchers and organizations that promote good government at the local level have an important role to play. Future research should explore which economic development strategies work. Additional research should also seek to clarify best practices for public participation in economic development and successful public-private partnerships. Non-profit organizations dedicated to this type of work should provide resources and consultative services to local governments, and help disseminate best practices.

Legislative Changes Could Have Significant Impacts

In my analysis, statutory fit was the criterion that failed most often. State legislators could make changes to law that would improve local government financing alternatives for economic development projects. Two areas are worth consideration. The first is the voter threshold for some municipal bonds and infrastructure financing districts. The 2/3-voter approval necessary is a difficult hurdle to overcome. In these cases, local governments create bonds against future tax revenue. Currently, if a city wanted to take a tax increase measure to the voters to enhance the general fund, only a majority vote is required. However, if a city wanted voters to approve a special tax to fund a new infrastructure project, it must achieve 2/3-voter approval.

Lowering the threshold to a simple majority may not be the best alternative, as the average citizen is not aware of a city's debt obligations. However, lowering the threshold to a more reachable number somewhere in the middle could provide added flexibility to cities without creating a debt-approving spree. Any changes to current voting requirements tied to issuing debt would require 2/3-voter approval at a statewide election,

adding another layer of complexity. The legislature would need to achieve 2/3-voter approval in both houses to put this measure on the ballot. Reaching this level of consensus is highly unlikely with the current political division in the legislature. Special interests groups could also put a measure on the ballot, but would likely face significant opposition from supporters of the original measures that created the limits.

State legislators could also take other actions to help municipalities increase the flexibility of existing financing mechanisms. Infrastructure financing districts would be an appealing option for cities if they were not so difficult to create. Currently, they require a vote to be created, a vote to approve debt issuance, and agreement among all local entities affected by the creation. The level of coordination and collaboration is difficult and time consuming.

Limited obligation bonds on dedicated revenues would be more appealing if they did not negatively affect a city's credit rating. Even when tied to a specific source of revenue, limited obligation bonds are municipal debt obligations. Allowing other organizations, such as non-profit corporations, to receive the tax and use the bond would remove municipal liability. This change would also require legislative action.

Increasing the types of services that Mello-Roos taxes can pay for could include tourism promotion operations and possibly benefit many coastal and rural towns. These special taxes currently can pay for museums and cultural center operations with 2/3-voter approval. Legislation could also allow for the building of these facilities in addition to the operation of them. Incorporating even a few of these changes would go a long way for a city's ability to finance future economic development activities.

Conclusion

Financing economic development will be harder without redevelopment, but that is not necessarily a bad thing. By forcing cities to improve planning, have a more clearly defined vision, increase collaboration, and provide better service, the long-term economic outlook for California's communities may indeed be brighter than before. When cities have to use general fund dollars to provide targeted business incentives, they will also have to think about what other services that revenue could provide to its citizens.

The relationship between state and local governments in California has been tumultuous for decades. If the state wants to provide cities with more options while still protecting taxpayer dollars, changes to some of the financing mechanisms analyzed in this thesis would give municipalities greater flexibility in financing economic development. Additional research would help solidify economic development strategies, and cities need more educational resources that help them learn how to plan, collaborate, and promote participation in local economic development.

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