

Redevelopment: The Unknown Government

What It Is. What Can Be Done.

A Report to the People of California

August, 2004

REDEVELOPMENT: THE UNKNOWN GOVERNMENT

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1 — The Unknown Government

There is an unknown government in California.

This unknown government currently consumes 10% of all property taxes statewide — \$2.8 billion in 2003. It has a total indebtedness of over \$56 billion.

It is supported by a powerful Sacramento lobby, backed by an army of lawyers, consultants, bond brokers and land developers.

Unlike new counties, cities and school districts, it can be created without a vote of the citizens affected.

Unlike other governments, it can incur bonded indebtedness without voter approval.

Unlike other governments, it may use the power of eminent domain to benefit private interests.

This unknown government provides no public services. It does not educate our children, maintain our streets, protect us from crime, nor stock our libraries

It claims to eliminate blight and promote economic development, yet there is no evidence it has done so in the half century since it was created.

Indeed, it has become a rapidly growing drain on California's public resources, amassing enormous power with little public awareness or oversight.

This unknown government is Redevelopment.

It is time Californians knew more about it.

State law allows a city council to create a redevelopment agency to administer one or

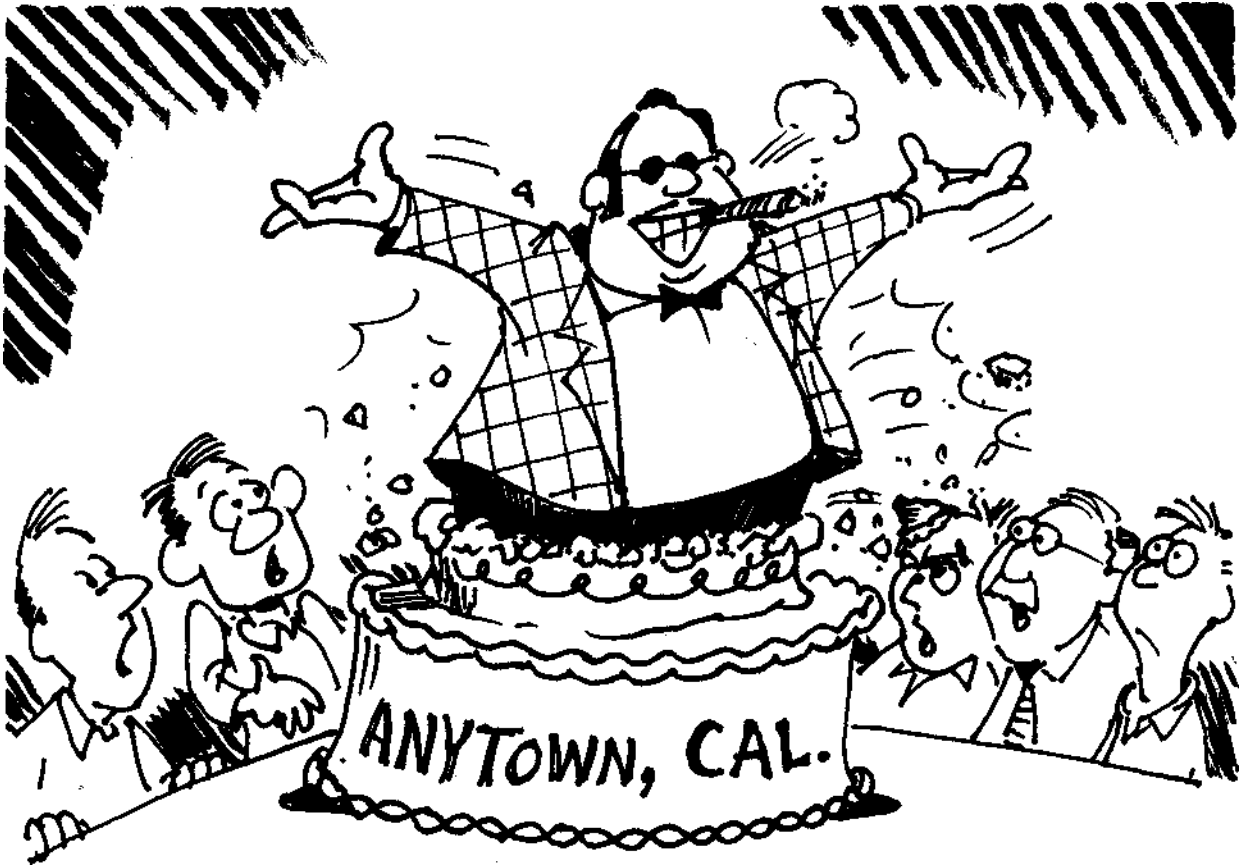
more "project areas" within its boundaries. An area may be small, or it can encompass the entire city.

These project areas are governed by a redevelopment agency with its own staff and governing board, appointed by the city council.

Thus, an agency and city may appear to be one entity. Usually city councils appoint themselves as agency board members, with council meetings doubling as redevelopment meetings. Legally, however, a redevelopment agency is an entirely separate government authority, with its own revenue, budget, staff and expanded powers to issue debt and condemn private property.

Out of California's 477 cities, 381 have active redevelopment agencies. No vote of the residents affected was required. No review by the Local Agency Formation Commission (LAFCO) was done. (Only 21 of 58 counties have active redevelopment agencies, and with unincorporated areas shrinking, counties constitute barely 4% of all redevelopment expenditures.)

Californians often confuse redevelopment with federal "urban renewal" projects typical of large eastern cities of the 1940's-60's. Sadly, the methods and results are often similar. Yet redevelopment is a state-authorized layer of government without federal funds, rules or requirements. It is entirely within the power of the California legislature and voters to control, reform, amend or abolish.



'I'm from Redevelopment and I'm here to help you.

2 — Blight Makes Right

An a city need do to create or expand a redevelopment area is to declare it "blighted".

This is easily done. State law is so vague that most anything has been designated as "blight". Parkland, new residential areas, professional baseball stadiums, oil fields, shopping centers, orange groves, open desert and dry riverbeds have all been designated as "blight" for redevelopment purposes.

To make a finding of blight, a consultant is hired to conduct a study. New redevelopment areas are largely driven by city staff, who choose the consultant with the approval of the city council. Consultants know their job is not to determine *if* there is blight, but to *declare* blighted whatever community conditions may be.

"Cities adopted very loose and very creative definitions of blight," writes syndicated *Sacramento Bee* columnist Dan Walters, author and long-time state policy analyst. "Often, vacant, never-developed land is branded as blighted to allow its inclusion in a redevelopment zone."

A city park in Lancaster has been declared blighted to justify paving over 19 acres of parkland and axing 100 trees for a new Costco. Raw desert acreage in California City was declared blighted to justify its seizure for a Hyundai test track.

An Orange County public health facility was declared blighted by the Santa Ana Redevelopment Agency in order to condemn it and turn the property over to a BMW dealer.

Blight has been proclaimed in some of California's most affluent cities. Indian Wells, a guard-gated community with an average \$210,000 household income, has *two* separate redevelopment areas.

Understandably, many homeowners fear an

official designation of blight will hurt property values. Small property owners fear redevelopment's use of eminent domain. Building permits can also be denied if an applicant does not conform precisely to the redevelopment plan. So, local citizen groups often challenge the blight findings in court. Judges overturned blight findings in Mammoth Lakes, Diamond Bar and Temecula, invalidating their redevelopment plans. Others are challenged by counties and school districts that stand to lose major property tax revenue if a new redevelopment area is created.

Recent state legislation has tightened definitions of blight, particularly those involving open and agricultural land. Still, enforcement is lax, legal challenges costly, and most agencies were already created long before recent reform attempts.

Once the consultant's blight findings are ratified, a city may create or expand a redevelopment area. Voter approval is never asked. Citizens can force a vote by gathering 10% of the signatures of all registered voters within 30 days of the council action. Where this has occurred, redevelopment nearly always loses by wide margins (rejected in Montebello by 82%, La Puente by 67%, Ventura by 57%, Los Alamitos by 55%, Half Moon Bay by 76%, for example).

The requirements to force a vote are difficult to meet, however. In the vast majority of cases, a popular vote is never held. Rather, the consultant's findings of blight are quickly certified. A law firm is then retained to draw up the paperwork and defend against legal challenges.

A growing number of law firms specialize in redevelopment. Like the consultants, they are members of the California Redevelopment

Association, a Sacramento-based lobby. They are listed in the CRA's directory and advertise in its newsletter. Their livelihood depends on the aggressive use of redevelopment and increasingly imaginative definitions of blight.

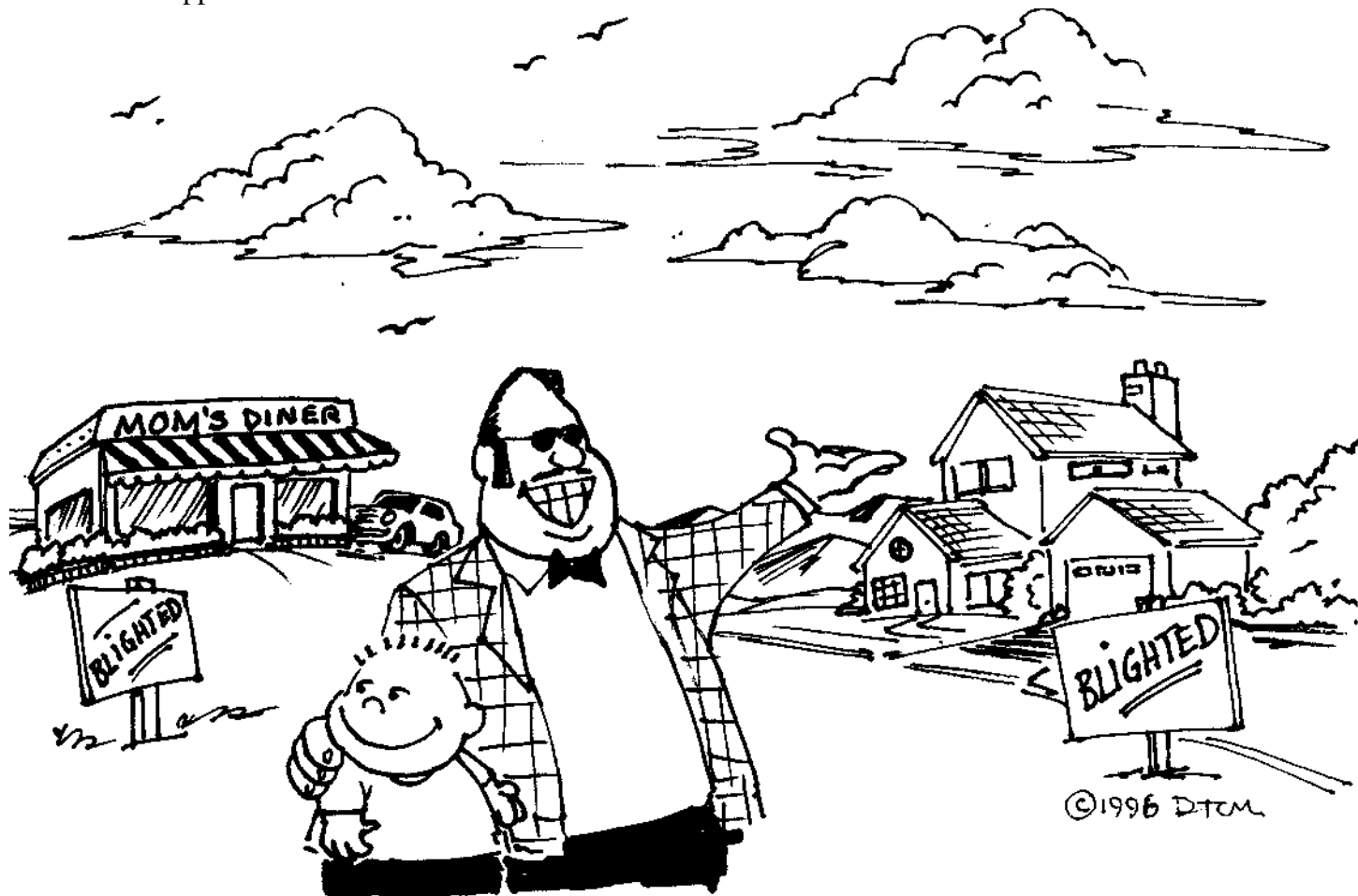
To eliminate alleged blight, a redevelopment agency, once created, has four extraordinary powers held by no other government authority:

- 1) **Tax Increment:** A redevelopment agency has the exclusive use of all increases in property tax revenues ("tax increment") generated in its designated project areas.
- 2) **Bonded Debt:** An agency has the power to sell bonds secured against future tax increment, and may do so without voter approval.

3) **Business Subsidies:** An agency has the power to give public money directly to developers and other private businesses in the form of cash grants, tax rebates, free land or public improvements.

4) **Eminent Domain:** An agency has expanded powers to condemn private property, not just for public use, but to transfer to other private owners.

These four powers represent an enormous expansion of government intrusion into our traditional system of private property and free enterprise. Let us carefully consider the costs of this power and if it has done anything to eliminate real blight.



'It's easy... blight is whatever we say it is!'

3 — Tax Increment Diversion

Once a redevelopment project area is created, all property tax increment within it goes directly to the agency. This means all increases in property tax revenues are diverted to the redevelopment agency and away from the cities, counties and school districts that would normally receive them.

While inflation naturally forces up expenses for public services such as education and police, their property tax revenues within a redevelopment area are thus frozen. All new revenues beyond the base year can be spent only for redevelopment purposes.

In 2003, this revenue diversion was just over \$2.8 billion statewide. This means over 10% of all property taxes was diverted from public services to redevelopment schemes. Even with modest inflation, the percent taken has roughly doubled every 15 years. (Table 3.1).

Total acreage under redevelopment has doubled in the past decade, with now nearly a million acres tied up in tax increment diversions (Table 3.2).

If redevelopment were a temporary measure, as advocates once claimed, this diversion might be sustainable. Once an agency is disbanded, all the new property tax revenues would be restored to local governments. Legally, agencies are supposed to sunset after 40 years, but the law contains many exceptions and is easily circumvented. Tougher sunset legislation is needed to close agencies at a pre-determined date. Only then will property tax diversions end and the funds restored to the public.

Hard-pressed counties are well aware of the cost of this diversion, and often go to court to challenge new redevelopment areas. In 1994, the Los Angeles County Grand Jury released its exhaustive report on redevelopment, calling for

more public accountability and citing its negative effects on county services. The County of Los Angeles general fund had lost \$2.6 billion to redevelopment diversions since 1978, seriously impacting public services. Other counties face similar losses.

School districts have also responded with lawsuits, sometimes forcing "pass-through" agreements to restore part of their lost revenue.

Redevelopment agencies are notoriously stingy in honoring property tax pass-throughs to school districts. Saddled by its heavily indebted and now defunct Riverwalk plan, the Garden Grove Redevelopment Agency reneged on \$2 million owed to local schools, until threatened litigation restored the funds.

In 2002, the Placentia-Yorba Linda Unified School District successfully sued the Yorba Linda Redevelopment Agency to recoup up to \$240 million in lost property tax revenues. With a \$775 million indebtedness, the agency had diverted school funds to build golf courses and shopping centers.

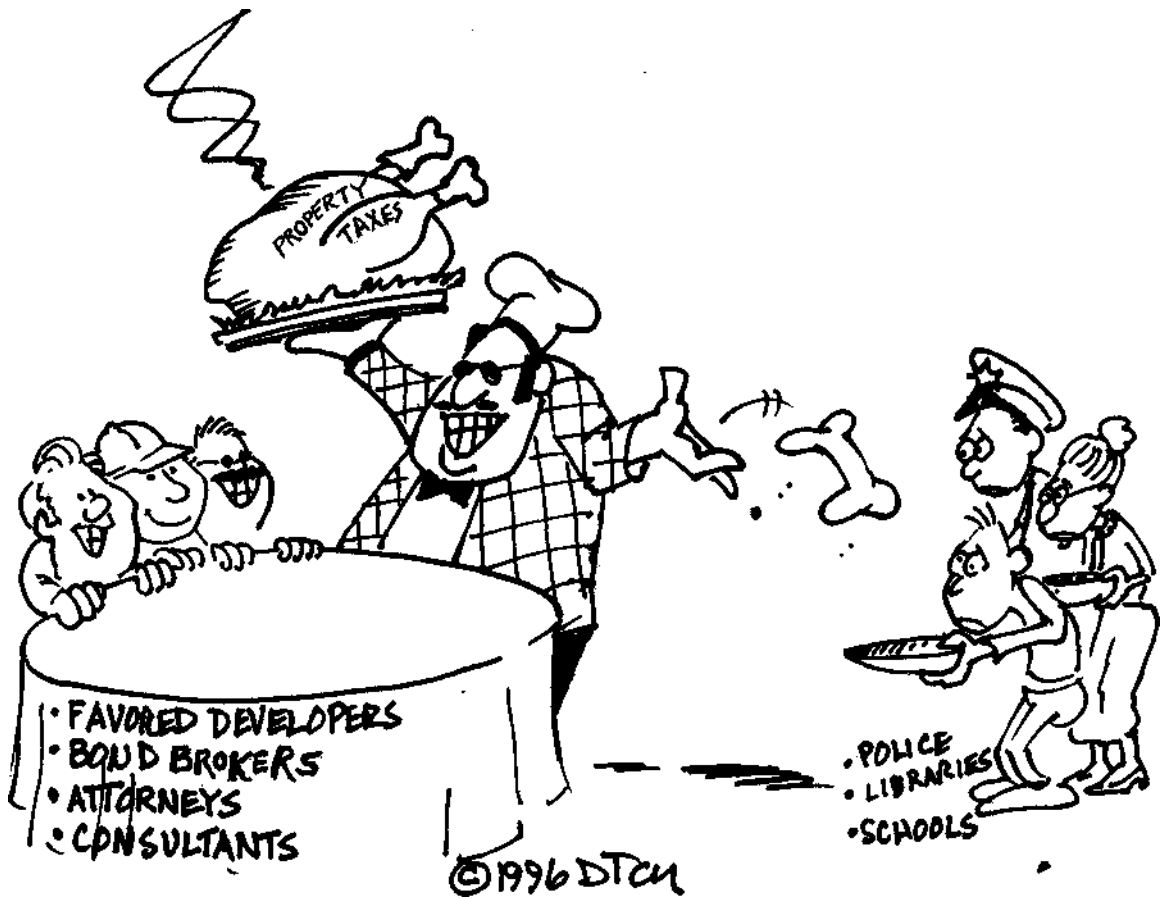
Faced with lost property taxes, school districts have slapped steep building fees on new residential development, thus passing the burden of redevelopment onto new homeowners and renters.

To recoup property taxes lost to redevelopment agencies, school districts have won their own property tax diversions from cities, in the form of the Educational Revenue Augmentation Fund (ERAF). Established by the state legislature, ERAF diversions from cities to school districts totaled \$747 million in 2002-03, money that comes directly from municipal General Fund budgets needed for public safety, parks and libraries.

Cities have long complained about these ERAF diversions, but they are a direct result of their own redevelopment raids on school funds.

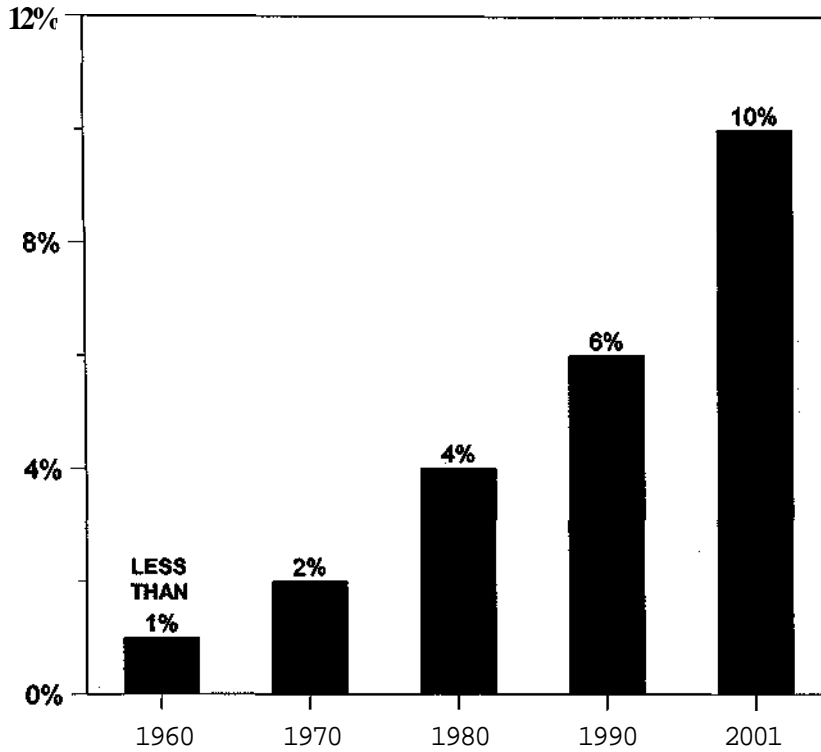
Tax increment financing also directly impacts municipal budgets by diverting city revenues into redevelopment agencies. That part of the tax increment that would have gone to the cities' general fund (averaging 12%) is lost, and can now be used only by redevelopment

agencies. Thus, there is now money to build auto malls and hotels, but less for police, fire fighters and librarians. Cities cannot use redevelopment money to pay for salaries, public safety or maintenance, which are by far the largest share of municipal budgets.



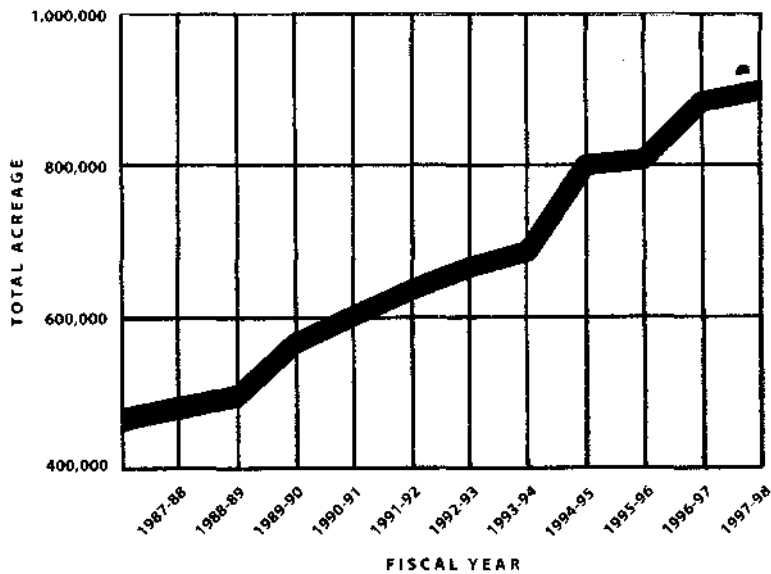
"Eat hearty, boys... plenty more where this came from!"

TABLE 3.1
Property Tax Increment as a Percentage
of Total Property Tax Revenues Statewide
(Percent of Property Taxes Diverted to Redevelopment)



SOURCE: California State Controller's Office.

TABLE 3.2
Total Acreage in Redevelopment Areas





Redevelopment boosters claim the agency is entitled to keep the tax increment, because it was created by agency activity itself. The exhaustively researched *Subsidizing Redevelopment in California* by Michael Dardia (Public Policy Institute, San Francisco, 1998) disproved this. Thorough analysis showed property tax diversions to be a net loss, and do not "pay for themselves" with increased development.

In fact, tax increment need not even be spent in the area it was generated. Agencies typically shift funds from one project area to another.

Massive property tax diversion from the San Fernando Valley to downtown Los Angeles redevelopment schemes is a key point made by the Valley secession movement.

Advocates also claim that redevelopment agencies do not raise new taxes. While narrowly true, the agency tax increment diversions starve legitimate government functions of necessary revenues, thus pressuring tax increases to make

up the shortfall.

The bi-partisan Commission on Local Governance for the 21 st Century, chaired by San Diego Mayor Susan Golding, released its report, *Growth Within Bounds* (State of California, Sacramento, 2000). The commission specifically cited the negative impact of tax increment financing, noting that "This financing tool has steadily eaten into local property tax allocations that could otherwise be used for general governmental services, such as police and fire protection and parks" (page 111).

Tax increment financing is a growing drain on funds intended for public needs. It has confused and distorted state and local finance, resulting in a byzantine maze of diversion, augmentations, pass-throughs, and backfills that have shortchanged both our schools and city services. These property taxes — \$2.8 billion annually — must be recaptured from private interests, and restored to the public interest.



'It's easy... when you don't have to ask the voters!'

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4 — Debt: Play Now, Pay Later

It is troubling enough that redevelopment agencies divert property taxes from real public needs. But that is only part of the story.

By law, for a redevelopment agency to begin receiving property taxes, it must first incur debt. In fact, property tax increment revenues may only be used to pay off outstanding debt. Pay-as-you-go is not part of redevelopment law or philosophy.

Debt is not just a temptation. It is a requirement.

That is why redevelopment hearings inevitably feature three groups of outside "experts": the blight consultants, the lawyers, and the bond brokers who help the agency incur debt so it can start receiving the tax increment.

The bond brokers and debt consultants are easily located. They are listed in the California Redevelopment Association Directory. From city to city they phone, fax, travel and make presentations to sell additional debt. Naturally, redevelopment staffs are supportive. More debt means job security and larger payrolls.

Currently, total redevelopment indebtedness in California tops \$56 billion, a figure that is doubling every ten years (Table 4.1).

Debt levels vary widely among agencies, but all must have debt to receive the tax increment. Table 4.2 shows those cities with the highest total redevelopment indebtedness. Debt levels have no relation to actual blight, as many affluent suburban towns have higher indebtedness than older urban-core cities.

Table 4.3 shows outstanding indebtedness per-capita.

This is the amount of per-capita property taxes that must be paid to cover the principal and interest of existing debt. This amount must

be diverted from the cities, counties and school districts before these redevelopment agencies can shut down and restore the property taxes to those entities.

One would expect that if redevelopment agencies had been successful in eliminating "blight", they would now be scaling back their activities and reducing debt. In fact, redevelopment indebtedness is growing rapidly, draining investment money that could have gone to buy other government bonds or into the private sector.

There are two reasons redevelopment debt is so attractive. First, redevelopment agencies may sell bonded debt without voter approval. Unlike the state, counties and school districts, the debts need not be justified to, or approved by, the taxpayers. A quick majority vote by the agency is all that is needed.

Second, bond brokers love to sell redevelopment debt. The commissions are high and the buyers plentiful. Since the debt is secured against future property tax revenue, they are seen as secure and lucrative. If an agency over-extends, then surely the city's general fund will cover the debts.

Interest payments on bonds are the single largest expenditure of redevelopment agencies statewide, accounting for 21% of all costs — \$989 million in fiscal year 2002-2003 (Table 7.1).

Bondholders and their brokers are profiting handsomely from redevelopment debt, while pocketing property taxes that should go to public services.

Wall Street profits. Main Street pays.

Bond brokerage firms are among the biggest financial supporters of the California

Redevelopment Association. They pay hefty annual dues for its pro-redevelopment lobbyists, sponsor the Annual CRA Conference and hold regional seminars instructing agency staff how to incur ever more debt.

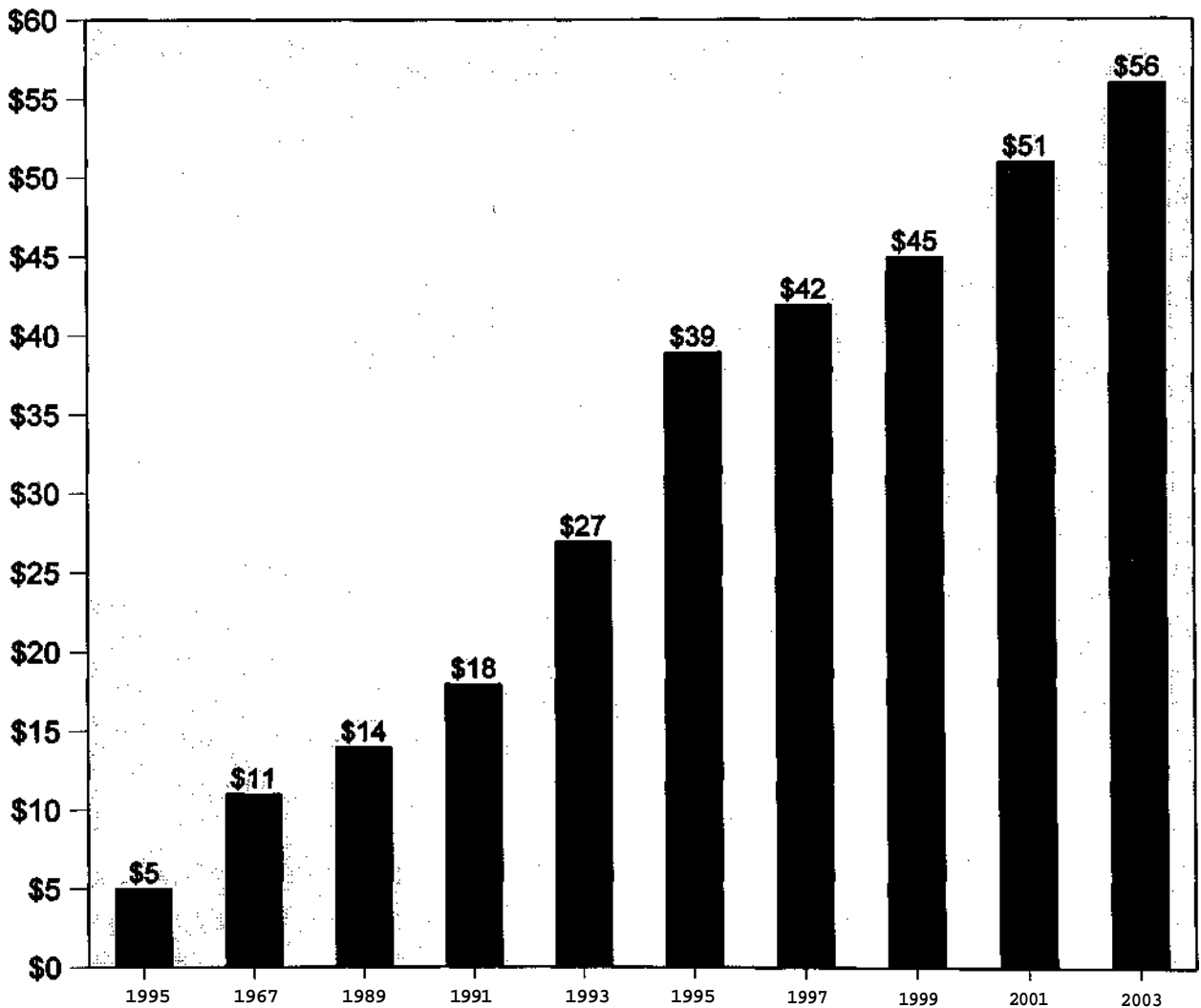
Redevelopment debt has mortgaged California's future by obligating property taxes for decades to come. \$56 billion needed for future schools, infrastructure and public services has been committed to service future

redevelopment debt. \$56 billion that should pay teachers and police officers is diverted to bondholders.

The only way to avoid these ballooning interest payments is for redevelopment agencies to stop incurring new debt, sell off existing assets and pay off existing principal as soon as possible. Chapter 12 explains how this can be achieved.

TABLE 4.1
Total Redevelopment Indebtedness Statewide

Figures
in Billions



SOURCE: State Controller's Office. Figures rounded off to the nearest \$billion.

TABLE 4.2
Top 12 California Cities by Total Redevelopment Indebtedness

(Includes principal and interest of all outstanding debt)

	City/Agency	Total Indebtedness
1	San Jose	\$2,851,405,676
2	Fontana	\$2,480,955,957
3	Palm Dessert	\$2,065,294,015
4	Fairfield	\$2,028,707,026
5	Lancaster.	\$1,917,161,612
6	Palmdale.	\$1,677,607,033
7	Los Angeles.	\$1,546,660,236
8	La Quinta	\$1,483,730,686
9	Industry.	\$1,183,624,222
10	Burbank	\$1,144,631,320
11	Oakland	\$763,498,460
12	West Covina	\$675,627,017

TABLE 4.3

Top 12 California Per-Capita Redevelopment Indebtedness by City

(Includes outstanding principal and interest)

	Per-Capita Indebtedness	City/Agency	Population	TOTAL Indebtedness
1	\$1,479,530	Industry (L.A. Co.)	800	\$1,183,624,222
2	\$113,839	Irwindale (L.A. Co.)	1,490	\$169,620,300
3	\$83,030	Sand City (Monterey Co.)	280	\$23,248,449
4	\$48,727	La Quinta (Riverside Co.)	30,450	\$1,483,730,686
5	\$47,045	Palm Desert (Riverside Co.)	43,900	\$2,065,294,015
6	\$42,021	Avalon (L.A. Co.)	3,320	\$139,508,869
7	\$41,947	Vernon (L.A. Co.)	95	\$3,984,962
8	\$24,354	Indian Wells (Riverside Co.)	4,400	\$107,158,230
9	\$22,335	Brisbane (San Mateo Co.)	3,650	\$81,521,876
10	\$20,288	Emeryville (Alameda Co.)	7,550	\$153,175,989
11	\$19,792	Fairfield (Solano Co.)	102,500	\$2,028,707,026
12	\$17,099	Lemoore (Kings Co.)	21,000	\$359,070,398

SOURCES: *Community Redevelopment Agencies Annual Report, Fiscal Year 2002-2003*; State Controller's Office State of California, Department of Finance, E-1 City/County Population Estimates with Annual Percent Change, January 1, 2002 and 2003. Sacramento, CA, May 2003.

5 — Corporate Welfare

The consultant has found the blight. The lawyers have drawn up the papers and defended the agency from suits. The bond brokers have created the debt, to be paid by the tax increment that will surely flow.

Now should be the time to begin eliminating "blight", as required by state law.

In reality, very little is ever heard again about blight. Redevelopment agencies are driven primarily by creating new revenue. Since most cities with redevelopment have little or no real blight anyway, creating new government revenues becomes their prime goal. They do so in two ways:

Debt: As we have seen, an agency incurs debt to be paid by future property tax diversions. In this way, it can perpetuate its own activities indefinitely by continuing to borrow.

Sales Tax: By promoting commercial development, a redevelopment agency tries to stimulate new sales taxes that benefit the city's general fund.

By state law, a city's sales tax share is 1% of all taxable purchases. Sales taxes are site-based. If you live in Sacramento and buy a car in Folsom, all of the sales tax share from the car will go to Folsom, none to Sacramento.

Typically, sales taxes account for 26% of municipal general fund budgets, so cities have long been motivated to attract sales tax generators. City officials and chambers of commerce have touted their location, city services, and access to markets. New department stores and auto dealers have long been greeted with ribbon cuttings and proud announcements in the local paper.

Redevelopment has escalated this to a new level.

With redevelopment, cities have the power

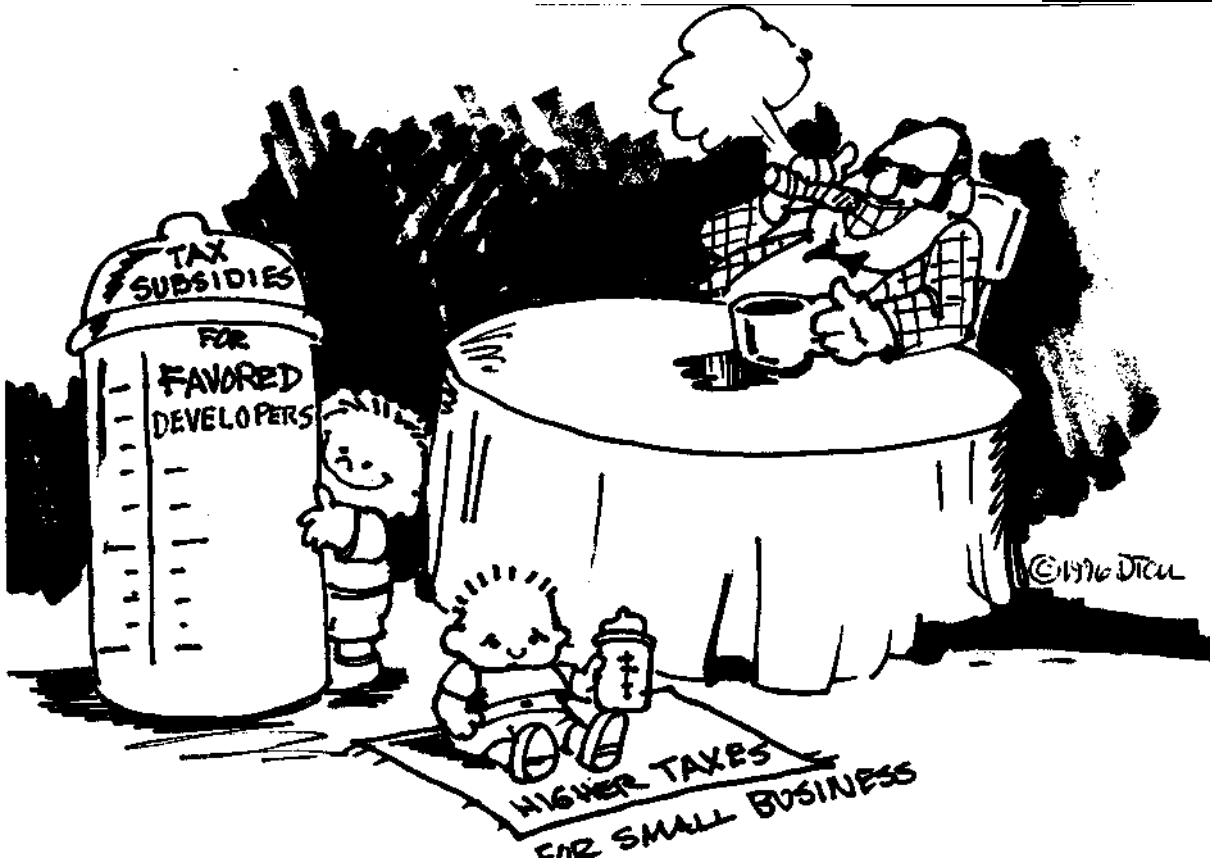
to directly subsidize commercial development through cash grants, tax rebates, or free land. Spelled out in a Disposition and Development Agreement (DDA), a developer receives lucrative public funding for projects the agency favors. Some receive cash up front from the sale of bonds they will never have to repay. Others receive raw acreage or land already cleared of inconvenient small businesses and homes. They purchase the land at substantial discount from the agency. Sometimes it is free.

Redevelopment subsidies are not distributed evenly. Favored developers, NFL team owners, giant discount stores, hotels and auto dealers receive most of the money. Small business owners now must face giant new competitors funded by their own taxes.

Public funds are also used for glitzy new entertainment centers open only to the affluent, replacing perfectly good private facilities at great cost.

L.A. Staples Center (tax subsidy: \$50 million) moved the Kings and Lakers out of Inglewood, leaving the Forum empty. As part of a new Highland/Hollywood Mall (tax subsidy: \$98 million) the new Kodak Theater stole the annual Academy Awards ceremonies from the historic Shrine Auditorium, which had long hosted the event at no public cost. The mall is now struggling financially, and over 1,000 angry Academy members were locked out of the 2002 Oscar show because the Kodak is half the size of the Shrine.

Redevelopment has accelerated the centralization of economic power among ever-fewer corporate chains at the expense of locally-based independent businesses. Asserts Larry Kosmont of Kosmont & Associates, a veteran redevelopment consultant and prominent CRA member, "Costco, Wal-Mart and other sales-tax generators are king of the highways and will get whatever they want."



"Some are more equal than others!"

This costly distortion of the free enterprise system is justified as the only way to boost local sales taxes (ending "blight" has, by now, been long forgotten). Yet, if new developments are justified by market demand, they will be built anyway. If not, they will fail, regardless of the subsidies.

Politically, such giveaways are beginning to backfire on local politicians. Oakland Mayor Elihu Harris lost a 1998 Assembly race to Green candidate Audie Bock shortly after he signed a one-sided giveaway to Al Davis to lure the Raiders back to Oakland. The annual \$5.8 million public pay-off to the San Diego Chargers (as part of a "seat guarantee" to multi-millionaire team owner Alex Spanos) was a key issue in the 2000 mayoral race. Tainted by her vote for the subsidy, Councilwoman Barbara Warden placed a distant fourth in the March primary. L. A. politicians were decidedly cool to the hefty subsidies demanded by the NFL for an expansion team, which ultimately went to

Houston. No candidate in the 2001 L.A. mayoral race proposed any NFL deal. When a downtown L.A. stadium plan was unveiled in 2002, (requiring a \$ 10 million public bond and cleared free land) widespread public opposition led to its speedy withdrawal. Even council members from Mission Viejo scurried for cover when their hefty redevelopment "investment" in the minor league Vigilantes went bad, and the team folded.

Wasted, too are the billions spent competing for malls, auto centers, big box retailers and other recipients of redevelopment largess. Fiscal sanity and the laws of free enterprise must be restored. Ironically, as poor mothers see their welfare checks slashed, billionaire team owners and developers receive ever more public dole.

Redevelopment has become a massive wealth-transfer machine. Cash and land go to powerful developers and corporate retailers, while small business owners and taxpayers must foot the bill.

6 — Predatory Redevelopment: Sales Tax Shell Game

A drive north on the Santa Ana Freeway from Disneyland toward L.A. reveals the chaos redevelopment has wreaked. There is the Buena Park Auto Square, built around dealerships lured from nearby Fullerton. Just north is the old Gateway Chevrolet site. Where did it go? Just across the county line to La Mirada, which lured it from Buena Park with its own publicly-financed auto mall (on land conveniently designated as "blight").

Still further north is another auto mall in Santa Fe Springs, with numerous long-vacant parcels waiting for the dealerships that will never come. To the west is Cerritos, whose giant redevelopment-funded "Auto Square" became a pioneer in auto dealer piracy, draining off dealerships — and sales tax revenue — from its neighbors. Nearby Lakewood lost so many car dealers that its city manager labeled Cerritos the "Darth Vader of cities".

Drive any stretch of freeway in San Diego, Los Angeles, Santa Clara or other urban counties and you'll see redevelopment-funded auto malls, with their hopeful reader boards and carefully graded — and vacant — dealer sites. They're the product of a bitter fiscal free-for-all, as cities coax each other's dealerships away with ever-sweeter giveaways.

Car dealers, of course, are loving it. They no longer have to make a profit from mere customers. They can now play one city off against another for cheap land, tax rebates and free public improvements. You can't blame them. But you can blame the laws that encourage this shell game.

The same pattern is repeated with department stores, discount chains, home improvement centers, professional sports

franchises and even gambling casinos. Corporate decisions once based on market forces are now determined by which city's redevelopment agency will cut the best deal.

Costco played off Morgan Hill against Gilroy for the highest public subsidy, finally settling for \$1.4 million in tax hand-outs from Gilroy. "They played us against someone else to get a better deal," said Planning Director William Faus (San Jose Mercury-News, August 6, 2002).

The rush for sales taxes has caused cities to favor commercial development over all other reforms of land use (Table 6.1). This fiscalization of land use offers incentives to giant retailers, while discouraging new housing and industry.

The California Redevelopment Association (CRA) encourages retail developers to expect public handouts. The CRA regularly co-hosts conferences with the International Council of Shopping Centers (ICSC) where retailers and mall promoters feel out city officials for hand-outs.

"California has more than 300 redevelopment agencies," gushes the ICSC magazine *Shopping Centers Today*. "Unlike smokestack industries and manufacturing plants, retail development is a source of clean revenue for cities" ("ICSC Forges Public/Private Partnerships", May 2001.)

This pro-retail/anti-industrial bias pervades redevelopment promoters. They value low wage retail jobs at the expense of high paying manufacturing jobs. They value people only as consumers, not as skilled workers. They value consumption at the expense of production.

Per-capita sales tax revenues vary widely



What'll ya bid for this auto dealership?'

from city to city (Table 6.2). Generally, affluent suburban ring cities get more than older urban-core cities that need it the most. Largely minority cities are hit especially hard by sales tax inequality. Redevelopment has added to these distortions as cash-flush suburban cities lure retailers out of the poorer inner-city.

In *California Cities and the Local Sales Tax* (Public Policy Institute of California, San Francisco, 1999), researchers Paul Lewis and Elisa Barbour show how the sales tax bias has skewed local decision-making and how the billions in redevelopment subsidies have failed to expand sales tax revenues: "From the 1970's to the 1990's, sales taxes, measured in real dollars per-capita, were a fairly stagnant source of funds" (page xiii).

Even as personal incomes grew rapidly in the halcyon '90s, sales tax revenues remained flat. An aging California population is investing more of its money, and spending it on health care, travel and personal services, none of which is subject to sales tax.

Internet commerce, too, will cut into future sales tax revenues. Burgeoning interstate online purchases are sales tax exempt by federal law, and taxes on in-state purchases are difficult to collect.

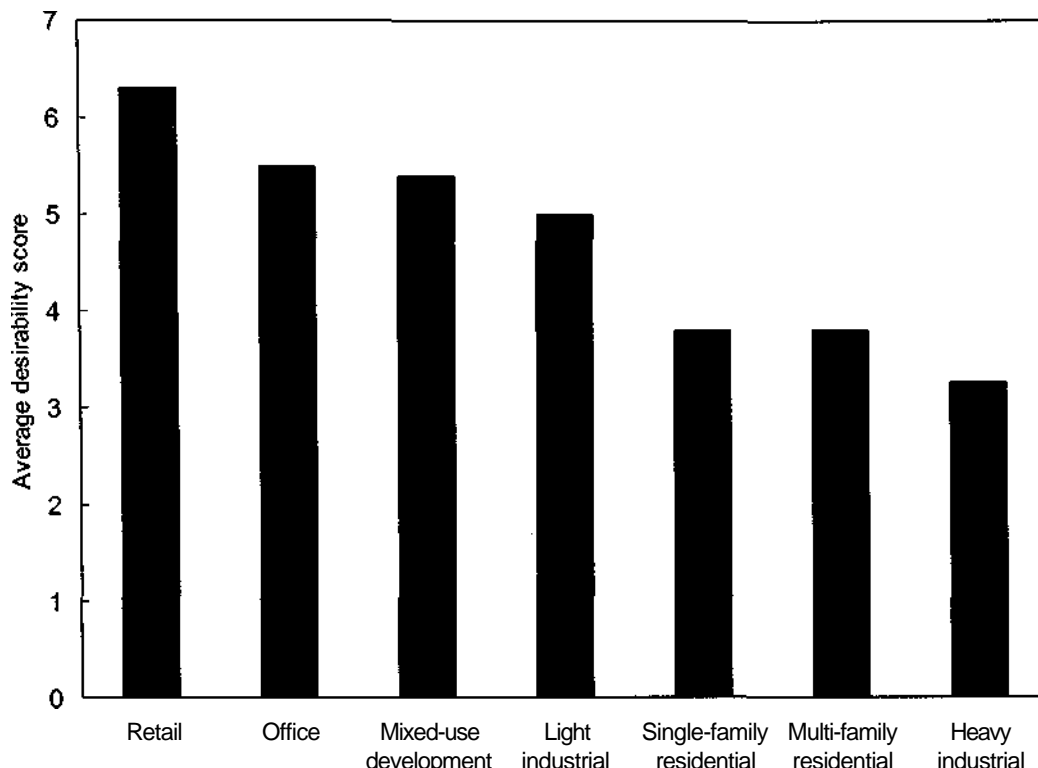
These factors make it unlikely that the huge public subsidies poured into retail businesses will ever pay back the new sales taxes so touted by redevelopment boosters.

State leaders are finally focusing on the need for sales tax reform. The "fiscalization of land use" promoted by redevelopment practices now show signs of being addressed.

AB 178 was sponsored by Assemblyman Tom Torlakson (D-Martinez), and signed into law in 1999 by Governor Davis. It requires any city or agency that uses public money to lure a business away from a neighboring city to reimburse that city for half the sales taxes lost, over a 5-year period.

Proposition 11, passed in 1998, allows neighboring cities to enter into regional sales tax sharing agreements. This would stabilize reve-

TABLE 6.1
Relative Desirability of Various Land Uses
in Redevelopment Areas, as Viewed by City Managers



SOURCE: PPIC, *California and the Local Sales Tax*, page 77.

(The Public Policy Institute of California conducted a survey of 471 City Managers, 330 of whom responded.)

nues and end bidding wars for retailers. With so many cities packed into certain urban counties (Los Angeles County has 88 cities), however, it is difficult for cities to work out such agreements on their own.

A more far-reaching reform would be to replace the point-of-sale to a per-capita sales tax disbursement. This would create a more equitable distribution of public revenue, and completely end costly competition over major retailers.

The Public Policy Institute's sales tax study indicated that 59.5% of the state's population live in cities and counties that would be better off in a per-capita system, especially residents of older cities.

Newspapers as diverse as *the L.A. Times* and *Orange County Register* have editorially supported sales tax reform.

Then-Speaker Antonio Villaraigosa's Commission on State and Local Government Finance proposed replacing half the cities' and counties' sales tax share with more stable property tax revenues.

Controller Kathleen Connell's State Municipal Advisory Reform Team (SMART) issued its 1999 recommendations, including a phased-in per capita sales tax disbursement system over 10 years, that would assure cities and counties a greater share of property taxes.

A move away from sales tax reliance will restore fiscal rationality to local government and

balance to land use decisions. It will also undercut the leading rationale for redevelopment agencies.

With assured and stable revenues, cities will cease subsidizing retail and treat residential and industrial uses more fairly. With a greater share

of the property taxes for their general funds, cities will be loathe to divert them into their redevelopment agencies.

A return to common sense in local government finance will end the irrationality that redevelopment has become.

TABLE 6.2
Annual Per-Capita Sales Tax Revenues: Selected Cities

City Sales Tax Per Capita	
<i>Affluent Suburban Cities: (25,000-100,000)</i>	
Beverly Hills	\$518
Cerritos	\$459
Brea	\$405
Palo Alto	\$320
Palm Desert	\$304
Pleasanton	\$261
Campbell	\$245
Carlsbad	\$239
Mountain View	\$229
<i>Statewide Average</i>	<i>.\$136</i>
<i>Older Urban Core Cities (over 150,000)</i>	
Stockton	\$132
Santa Ana	\$109
Los Angeles	\$92
Oakland	\$89
Long Beach	\$85
Pomona	\$74
<i>Predominantly African-American Cities:</i>	
Inglewood	\$70
East Palo Alto	\$61
Compton	\$57
<i>Predominantly Hispanic Cities:</i>	
Stanton	\$81
Coachella	\$70
Pico Rivera	\$48
Maywood	\$28
Parlier	\$16

SOURCE: State Controller's Office / All Figures: Fiscal Year 2001-2002

Follow the Money

Redevelopment backers may claim they are eliminating blight and cleaning up urban California, but the money trail tells a very different tale.

Table 7.1 shows where and to whom the money is flowing.

\$4.6 billion in public money was spent by all California redevelopment agencies (F.Y. 2002-2003), according to the most recent State Controller's Report. This includes both funds from property taxes and bond sale proceeds.

21% of the money pays for the interest on debt. That's \$989 million into the pockets of bondholders, at the expense of California taxpayers. This is a powerful motive for bond lawyers and brokerage houses to keep pushing redevelopment schemes and lobbying against needed reform.

While all redevelopment funds are encumbered by some sort of debt, \$697 million was made directly on debt principal. Thus 37% of all redevelopment funds went directly to debt payments.

While redevelopment apologists claim to be "rebuilding" our cities, only 25% went for actual development, and another 6% for land acquisition, much of it still vacant.

Significantly, \$566 million — 12% — was spent on administration, most of it for redevelopment staff salaries. This provides a lucrative bureaucratic base that redevelopment staffers seek to preserve and expand.

By law, 20% of all redevelopment funds must be spent on "low cost" housing (see Chapter 9), but only 3% is actually being spent directly on housing. Redevelopment agencies would much rather attract new retailers than residents.

The redevelopment establishment has tried to disavow these figures. But the numbers in the Controller's Report were all submitted by the agencies themselves. Table 7.1 represents a comparison of the major categories.

They are testimony to the waste and ineffectiveness of redevelopment. They are grim evidence of who really profits from it.

Definitely not the people of California.

Debt Payments

Real Estate
Development

Administration

Property Acquisitions

Housing Subsidies

Other

**TABLE 7.1
Total Redevelopment Expenditures by Category**

Interest: \$989 million	Principal: \$697 million	\$1,686 billion (37%)
[REDACTED]		\$1,154 billion (25%)
[REDACTED]		\$566 million (12%)
[REDACTED]		\$286 million (6%)
[REDACTED]		\$128 million (3%)
[REDACTED]		\$803 million (17%)

SOURCE: *Community Redevelopment Agencies Annual Report, Fiscal Year 2002-2003, California State Controller's Office, Table 4, Page 253.* **Debt Interest Payments** include Interest Expense: \$932,034,663., and Debt Issuance Costs: \$57,145,673. Total: \$989,180,336. **Debt Principal** includes Tax Allocation Bonds: \$320,559,849., Revenue Bonds: \$83,113,096., City/County Loans: \$173,354,470., Other Long-term Debt: \$119,942,504. Total: \$696,969,919. **Real Estate Development** includes Site Clearance Costs: \$8,695,097., Planning Survey & Design: \$46,536,217., Project Improvement/Construction Costs: \$981,314,257., Disposal Costs: \$2,756,634., Loss on Disposition of Land Held for Resale: \$23,022,471., Decline in Value of Land Held for Resale: \$27,803,322., Rehabilitation Costs/Grants: \$63,511,162. Total: \$1,153,639,160. **Administration** includes Administrative Costs: \$439,749,496., and Professional Services: \$95,436,730., Operation of Acquired Property: \$30,863,443. Total: \$566,049,669. **Property Acquisitions** include Real Estate Purchases: \$189,601,846., Acquisition Expense: \$57,588,884., Relocation Costs/Payments: \$18,138,364., Fixed Asset Acquisitions: \$20,452,886. Total: \$285,781,980. **Housing Subsidies** include Subsidies to Low & Moderate Income Housing: \$127,889,366. **Other** includes Other Expenditures: \$802,902,937.

8 — The Myth of Economic Development

Economic Development" is a common cliché among city governments and redevelopment agencies.

It refers to a belief that tax subsidies to selected private businesses can stimulate the local economy. It assumes that the free enterprise system alone is inadequate. It presumes that government planners can allocate resources more efficiently than can the free market.

The legal purpose for redevelopment remains the elimination of blight. All economic development activities must pay lip service toward that goal. Behind this facade, redevelopment has subsidized giant retailers, luxury hotels, golf courses, stadiums and even gambling casinos.

Is there any evidence that redevelopment has promoted economic development in blighted areas?

No.

The first systematic statewide analysis of redevelopment agencies was published by the prestigious Public Policy Institute of California in 1998, entitled *Subsidizing Redevelopment in California*. Veteran researcher Michael Dardia compared 114 different redevelopment project areas to similar neighborhoods outside of redevelopment areas, from 1983 to 1996.

The report concluded that redevelopment activities were not responsible for any net economic growth or increase in property taxes, and that they were a net drain on public resources. As the report's title suggests, Dardia concluded that redevelopment was being subsidized by taxes drained from the schools, the state and special districts.

In his research, Dardia had the full cooperation of the California Redevelopment

Association, which approved his methodology and confirmed his data. When his conclusion was reached, however, the CRA blasted the report and tried to have it buried. Yet it cannot refute the emerging truth: redevelopment does not work.

Similarly, the *Los Angeles Times* (January 30, 2000) published a detailed study showing the North Hollywood Redevelopment Project Area's 20-year, \$117 million effort had produced no net benefits for the community.

The *Times* compared North Hollywood to ten other socio-economically comparable areas in Los Angeles that had no redevelopment, including Van Nuys, Mar Vista and Venice. "Although they received no redevelopment money, most of the comparison areas registered improvements in income and poverty rates equal or better than the heavily funded North Hollywood project area," the report concluded.

Census data confirm the conclusions of the Public Policy Institute and *Los Angeles Times*. A 10-year comparison (1979-1989) of redevelopment and non-redevelopment cities shows no net per-capita income gains due to redevelopment activity (Table 8.1).

Pairing similar cities by area, size and income, shows those without redevelopment posted greater gains in living standard than those with redevelopment (Table 8.2).

Redevelopment's extreme bias in favor of retail and against industry has created low wage jobs at the expense of skilled workers. It subsidizes big box stores selling largely imported goods at the expense of American manufacturing jobs.

Especially hit are minority communities. Historically black Inglewood lost nearly \$1 million in annual tax revenues when it lost the

Kings and Lakers to the redevelopment-subsidized Staples Center. A Latino-oriented Gigante supermarket was barred from an Anaheim redevelopment zone when staff determined it was "too ethnic". Largely Hispanic and Black cities have been big losers in the struggle for equitable sales taxes (Table 6-2).

Redevelopment apologists and lobbyists counter with pretty pictures of new stadiums and shopping malls. Surely, with all the money spent, some nice new buildings have been completed. But their evidence of success is purely anecdotal. The evidence of failure is in the numbers. All objective comparison studies have shown that aggregate statewide

redevelopment activity does NOT generate economic development and does NOT eliminate blight.

This should come as no surprise even to the most ardent redevelopment boosters. Everywhere in the world, those countries that respect property rights and free consumer choice outperform those that put economic decisions in the hands of bureaucrats.

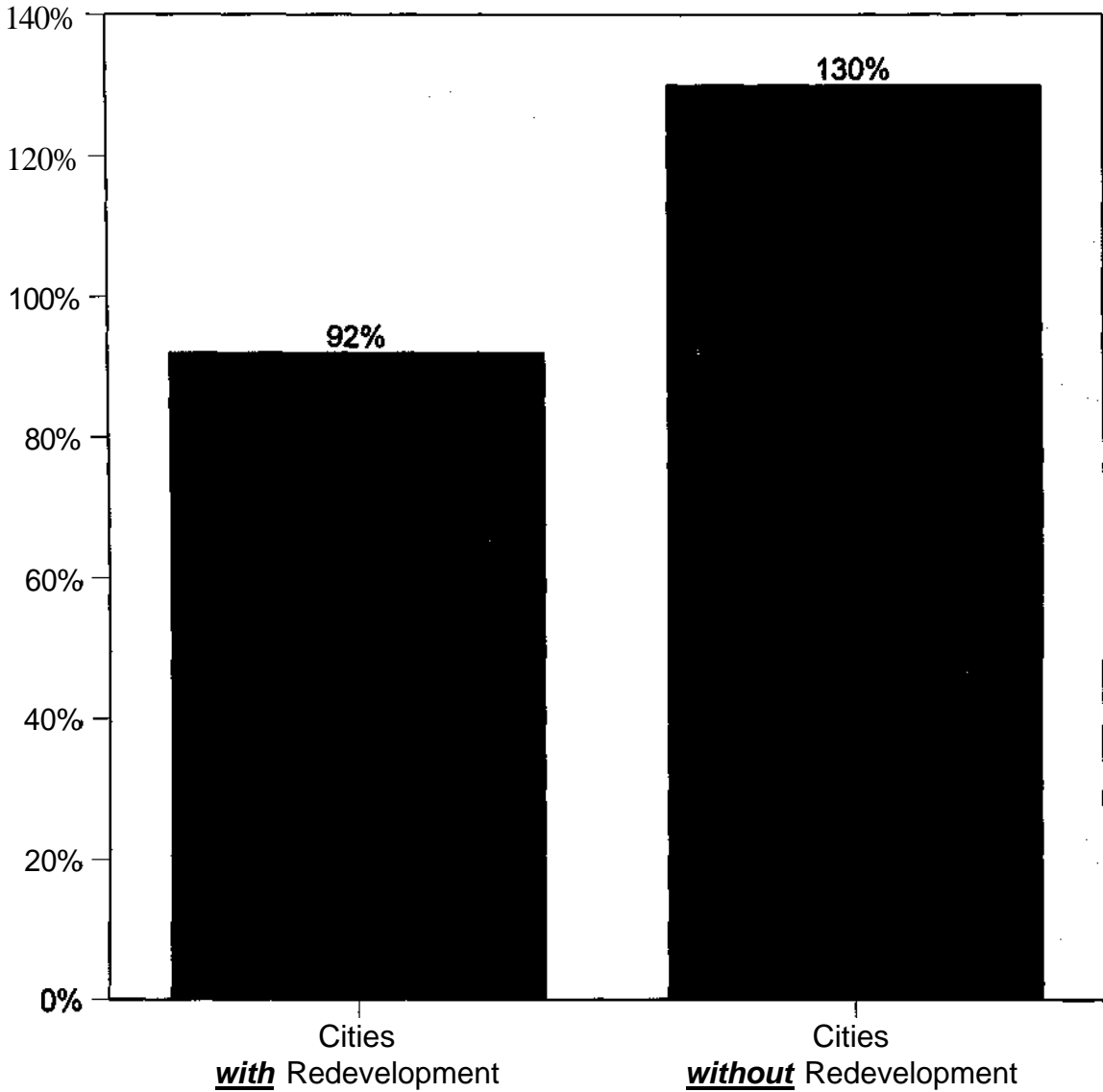
It is ironic that even as we encourage former Soviet bloc governments to free their economies, we increasingly entangle our local and state governments in economic policies that have repeatedly failed elsewhere.



"Isn't economic development great?"

TABLE 8.1

Per-Capita Income Growth
Redevelopment vs. Non-Redevelopment Cities



This survey reflects the 313 cities with redevelopment agencies, and the 101 cities without redevelopment agencies, from 1979-89. Cities incorporated after 1979 are not included.

SOURCE: United States Census Bureau, State Controller.

TABLE 8.2
Personal Income Growth Comparison Between
Cities With and Without Redevelopment
A Region-by-Region Per-Capita Income Growth Survey
Among Cities of Comparable Size and Socio-Economic Levels, 1979-1989

LOS ANGELES BASIN:

Status	City	1979	1989	Growth
NO Redevelopment	Gardena	\$7,911	\$14,601	85%
HAS Redevelopment	Hawthorne	\$8,097	\$14,842	83%
NO Redevelopment	Artesia	\$6,520	\$12,724	95%
HAS Redevelopment	Inglewood	\$6,962	\$11,899	71%

BAY AREA:

Status	City	1979	1989	Growth
NO Redevelopment	Benicia	\$9,312	\$20,663	122%
HAS Redevelopment	Alameda	\$9,288	\$19,833	114%

CENTRAL VALLEY:

Status	City	1979	1989	Growth
NO Redevelopment	Lodi	\$7,691	\$14,638	90%
HAS Redevelopment	Chico	\$6,065	\$10,584	74%

SMALL CITIES:

Status	City	1979	1989	Growth
NO Redevelopment	Etna	\$4,812	\$9,333	94%
HAS Redevelopment	Industry	\$4,539	\$7,853	73%

SOURCE: U.S. Census Bureau, California State Controller's Office

9 — Housing Scam

By state law, redevelopment agencies must spend 20% of their budgets on housing. This housing set-aside fund was intended to improve the quality and expand the supply of low cost housing.

In reality, however, most agencies resist spending money on new housing. When they do, the funds are often squandered on high-cost projects that enrich developers, and often displace more people than they house.

When Anaheim "improved" its working class Jeffrey-Lynne neighborhood, it forced existing apartment owners to sell to Southern California Housing Corp. Half of the units were demolished, over 400 tenants evicted and those that remained saw their rents doubled. Public subsidy: \$54 million.

The Brea Redevelopment Agency demolished its entire downtown residential area, using eminent domain to force out hundreds of lower-income residents. Much of its housing money has since been spent on mixed-use projects that are really more commercial than residential. The agency gave \$649,000 in housing funds to a largely retail development that will include only eight loft apartments. Earlier, Brea allocated \$30 million in housing funds for a street widening.

Many other agencies find creative ways to "launder" their housing money into commercial and other uses.

Indian Wells certainly does not want any working-class people in its gated city of mansions and golf courses. The Indian Wells Redevelopment Agency has tried to transfer all of its housing funds to nearby Coachella, a largely poor Latino community. The State Department of Housing and Community

Development has since ruled the transfer is illegal, that "Indian Wells has the obligation to use 20% of its annual property tax increment for affordable housing within its borders. Indian Wells has used redevelopment funds to build upscale hotels and golf courses that employ many low wage workers who are without affordable housing because it shirks its responsibility."

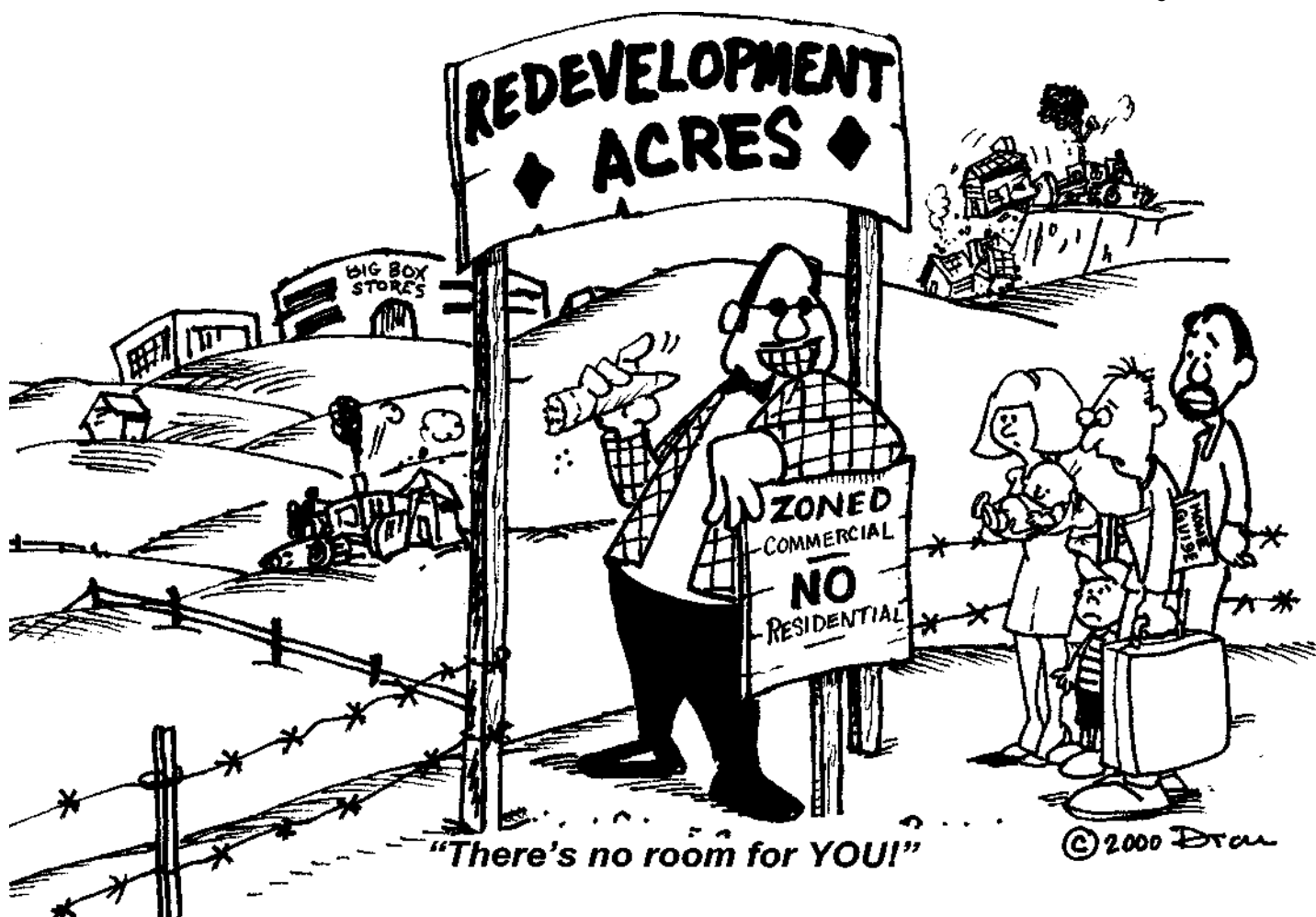
Many cities simply refuse to spend any of the required 20% on housing. The City of Industry's aggressive use of redevelopment has built shopping malls and auto plazas, yet not one new housing unit has been built there in the agency's history.

Despite the 20% requirement, the 2002-2003 State Controller's Report summary (page 253) shows barely 3% was spent on low and moderate income housing.

Of the money which is spent, 12% of all funds are eaten up by administrative overhead, mostly for agency staff salaries, while only 18% actually goes toward new housing construction.

The California Redevelopment Association has long lobbied the legislature for the elimination of the housing requirement. Housing advocates have been able to keep the 20% mandate, but have come to realize that it has done nothing to help low-wage earners or expand low-cost housing. Like much else in redevelopment, the original intent has been ignored.

"Local governments are penalized for housing, and rewarded for other things," states William Fulton, editor of California Planning and Development Report. "Many cities don't want to accommodate housing."



The real effect of redevelopment has been to increase housing costs statewide. To make up for losses to redevelopment property tax takeaways, school districts have levied new fees on residential development. Cities are happy to subsidize infrastructure for retail centers, then shift the burden to new housing. Commercial developments are subsidized, while residential developments face rising fees for streets, sewers, water and schools, often far beyond their direct impact.

The fiscalization of land use ties up too much property in commercial zones, thus keeping out needed housing. The actual redevelopment-funded housing that is built may gentrify an area, but the poor residents are simply shifted elsewhere.

Often the poor have nowhere to go at all. Describing L.A.'s Skid Row homeless the *Catholic Worker's* Jeff Dietrich writes, "They

are here as a result of the city's redevelopment policy, which over the years has slipped billions of tax dollars into the pockets of rich developers while systematically stripping the urban core of its lowest cost housing."

A shift away from sales tax reliance to property tax would be a first step in more affordable housing. Cities would be rewarded for maintaining quality residential areas, rather than simply luring more retail. New homes would not be spurned as a burden, but welcomed as new property tax contributors.

This will happen if cities rely less on sales taxes and receive a greater share of local property taxes. But these new property taxes must be spent on infrastructure and public safety, and not siphoned away by redevelopment agencies. In the meantime, redevelopment remains an unneeded extra layer of government, which has only added to housing costs statewide.

10 — Eminent Domain for Private Gain

"Nor shall private property be taken for public use without just compensation." Thus the Bill of Rights specifies the only purpose for eminent domain: "public use."

Since then, government has used eminent domain to acquire land for public use. Roads, schools, parks, military bases, and police stations were essential public facilities that took priority over individual property rights. Private real estate transactions, on the other hand, were always voluntary agreements between individuals.

Redevelopment has changed all that.

Under redevelopment, "public use" now includes privately owned shopping centers, auto malls and movie theaters. "Public use" is now anything a favored developer wants to do with another individual's land. Eminent domain is used to effect what once were purely private transactions.

In a typical redevelopment project, a developer is given an "exclusive negotiating agreement," or the sole right to develop property still owned by others. Once such an agreement is made, small property owners are pressured to sell to the redevelopment agency, which acquires the land on behalf of the developer. If refused, the agency holds a public hearing to determine "public need and necessity" to impose eminent domain. By law, this must be an impartial hearing. In reality, the agency has already committed itself to acquire the property for the developer, so the outcome is certain.

Whole areas of cities have been acquired, demolished and handed over to developers to recreate in their own image. Historic buildings, local businesses and unique neighborhoods are replaced by generic developments devoid of the special flavor that once gave communities their identities.

Typical is the experience of Anaheim. Having demolished its historic central business district in the mid-1970's, the redevelopment agency recently hired consultants to help restore the identity of a

downtown that no longer exists. "The complete eradication of the traditional business district has left nothing for the community to relate to as their downtown," admits an internal city memo.

"Redevelopment means the bulldozers are coming," said Jack Kyser, chief economist for the Los Angeles County Economic Development Corp., (January 30, 2000, *L.A. Times*). "A lot of time you displace business. Once you do that it's tough to replace them."

Small property owners have little chance to participate in redevelopment projects. Consultants and redevelopment planners prefer to work with one huge parcel under a single ownership. Entrepreneurs and homeowners just get in the way.

Typically, it is small family-owned businesses that are targeted for eminent domain. The Veltri family ran a popular Italian restaurant for years in downtown Brea. Forcibly acquired and demolished by the agency, a Yoshinoya Beef Bowl now stands in its place. Across the street, the Vega family saw its service station condemned and demolished to make way for a brew-pub.

For 40 years, family-owned Belisle's stood at the corner of Harbor and Chapman, famed for generous portions of homestyle cooking and 24-hour service. The Garden Grove Redevelopment Agency then seized the property on behalf of a developer. An Outback Steakhouse now stands at the site. Belisle's never found another location.

Ralph Cato saw his Fresno home condemned to provide land for a Roxford Foods turkey processing plant, which went bankrupt a few years later. Cato never got his house back.

Even churches are targets of eminent domain. The Cypress Redevelopment Agency voted to seize Cottonwood Christian Center's property for a new Costco. A subsequent trial overruled the agency action as an illegal use of eminent domain.

The CRA touts the aggressive use of eminent domain in its monthly *Redevelopment Journal*. A September 1999 article, with the ironic headline "Eminent Domain Helps Citizens," boasts "Wells Fargo Bank was one of the existing tenants of the Los Altos Shopping Center (Long Beach) helped by eminent domain." Just how using eminent domain to benefit a multi-billion-dollar bank "helps citizens" is not explained.

The same article details how eminent domain was used in North Hollywood to forcibly acquire a "brake shop, a gas station and small apartment building" to make way for a Carl's Jr. and an El Pollo Loco. Why is fast food more of a "public use" than housing or brake safety?

Redevelopment staff attend professional seminars promoting the ever-expanding use of eminent domain. Consultants explain how to pay the victims — nearly always small businesses and homeowners — as little as possible.

Fortunately, courts are becoming more willing to stop eminent domain abuse. In February 2000, the Lancaster Redevelopment

Agency condemned a 99 Cents Only Store solely to acquire the land for a Costco. Dave Gold, CEO of 99 Cents Only Stores Corp. (80 locations statewide) counter-sued for violation of his 5th Amendment property rights. "We don't want compensation. We just want to stay where we are," Gold told the agency.

On June 27, 2001, the U.S. District Court ruled that the eminent domain action was illegal. In his 17-page ruling, Federal Judge Stephen V. Wilson wrote that the Lancaster action was a "naked transfer of property from one private party to another."

The victories of 99 Cents Only Stores and Cottonwood Church will encourage others to defend their property against illegal takings. It has exposed the unconstitutional abuse of eminent domain that lies at the heart of redevelopment coercion.



'What's mine is mine .. . and what's yours is mine!'

11 — The Redevelopment Establishment

Redevelopment is an entrenched special interest. It thrives on contributions from its beneficiaries and from lack of awareness of the general public. Its advocate is the California Redevelopment Association, a Sacramento-based lobby that seeks to protect and expand redevelopment power.

The CRA's \$2.4 million annual budget is paid for from hefty annual dues by both agency-members and the private firms that profit from redevelopment. Despite the public tax dollars contributed to the CRA, the public has no say in CRA operations. The CRA is governed by an 18-member board. All are redevelopment agency administrators. None are elected officials. The CRA is operated by and for redevelopment insiders. Good public policy is the last of its concerns.

The CRA is highly sensitive to the growing public and legislative reaction to redevelopment abuse. Its monthly newsletter, *Redevelopment Journal*, brims with advice to redevelopment staff on finessing inquiries from the press and grand juries. It has repeatedly criticized *Redevelopment: The Unknown Government*, and personally attacked its authors, but has refuted none of the factual information provided here. Mostly it provides photos of new malls and shopping centers, accompanied by fluff pieces from redevelopment directors.

Well aware of redevelopment's growing negative image, the CRA has created the "Institute for a Better California," a pro-redevelopment public relations front group. Operating next to the CRA's Sacramento office, the IBC plants friendly stories in the mainstream press and monitors opposition groups.

The CRA has two core constituencies: agency staff members whose salaries derive from redevelopment and private businesses that profit from redevelopment.

Redevelopment staff control agency agendas and recommend actions. Agency members — usually elected city council members — tend to rely more on staff than on their own judgement. Though simple in principle, redevelopment is presented as too complex for ordinary elected officials and citizens to understand.

The special interests profiting from redevelopment are easy to find. The 2003 CRA Directory includes 53 commercial developers, 37 bond brokers, 50 law firms and 131 separate consulting firms.

The CRA Annual Conference in San Diego, held March 15-17, 2000, boasted 60 corporate sponsors and exhibitors. The main purpose of such conferences is to increase business for the firms that prey off redevelopment budgets.

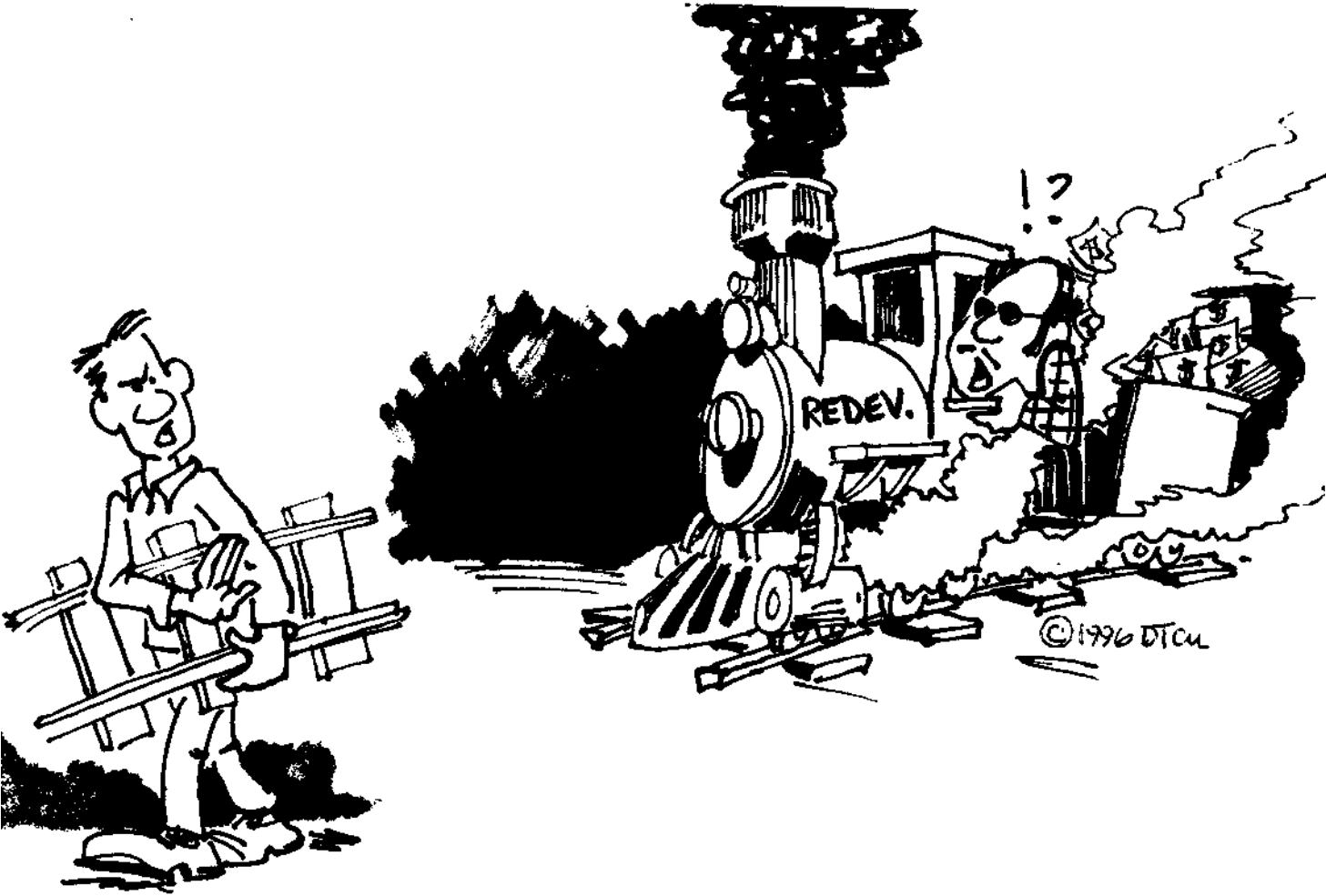
Among these are California's biggest developers, priciest law firms and Wall Street's most powerful brokerage houses. The "expertise" they provide for public officials is always geared toward high debt and expanding redevelopment power.

For all its guile, however, the CRA is puny compared to the California Teachers Association (CTA) and other interest groups that could mobilize to reclaim the money diverted by redevelopment. Admitted one CRA executive, "The largest group we have to fear is the CTA, because they are becoming aware that the money the state backfills to schools is additional money the schools might have, if they had not lost the money to tax increment in the first place."

In the end, the CRA's real power lies in widespread ignorance of what redevelopment is and how it operates. By law, redevelopment agencies are an arm of state government, yet there is little state oversight. This isolation has spawned abuses that would not be tolerated in any other government agency.



'Follow me, boys ... another town needs saving!'



'Your gravy train ends here!'

12 — What You Can Do

Clearly, redevelopment is out of control.

Under the thin guise of eliminating blight, it consumes a growing share of property taxes, incurs ever-burgeoning debt, spawns sales tax wars among cities and tramples on property rights. Originally created as a temporary measure following World War II, it threatens to become a permanent cancer on California's political and economic life. Ending redevelopment abuses can be approached on four levels:

LOCAL ACTIVISM: If your city has redevelopment, learn more about it and help educate your fellow citizens. Monitor agency agendas, challenge new debt issuances and expansion of project areas. Support local small businesses threatened with eminent domain and facing giant tax-subsidized competitors.

Support channeling redevelopment funds into infrastructure and real public improvements, and away from developer hand-outs and special interests.

Grass roots activism can work to protect your neighborhood. When the Garden Grove Redevelopment Agency targeted 800 homes for demolition for an unspecified "theme park," residents rallied to stop the plan.

Encourage your city to work for cooperative sales tax sharing agreements with its neighbors, as allowed for in Proposition 11.

If your city has no redevelopment, use the examples of abuse to keep it out of your city. Wherever you live, support officeholders and candidates who understand redevelopment and can make their own judgements independent of those who profit by it.

Support candidates like Charles Antos, whose 2002 election to the Seal Beach City Council created an anti-redevelopment majority that abolished the agency.

STATEWIDE ACTIVISM: Municipal

Officials for Redevelopment Reform (MORR) and Californians United for Redevelopment Education (CURE) are two statewide networks committed specifically to ending redevelopment abuse.

MORR publishes *Redevelopment: The Unknown Government*, which is available to all elected officials and citizen groups.

MORR also holds its California Conference on Redevelopment Abuse, held twice annually; spring in the Los Angeles area, and fall in the Bay Area. Attended by legislators, lawyers, mayors and activists, the confabs provide needed information — and inspiration — for those fighting redevelopment abuse. Call 714-871-9756 for the upcoming conference nearest you, or for additional copies of this publication.

CURE is an all-volunteer network, providing contacts among the many locally-based activist groups throughout the state. Call 323-567-6737 to get involved.

LEGAL CHALLENGE: County and school officials must be more aggressive in appealing redevelopment tax diversions. Grand Juries must broaden their probes into redevelopment. As the California State Supreme Court becomes more protective of property rights, eminent domain abuses can be more successfully challenged. A growing number of public interest lawyers are willing to defend small property owners against redevelopment agencies.

STATE LEGISLATION: Redevelopment is a layer of government created by the state, and has no powers other than those granted by the state. It is wholly within the powers of the state legislature and governor to reform, alter or abolish. The following issues must be addressed:

Eminent Domain: Controls must be placed on the widespread abuse of eminent domain.

Sales Tax Reform: Some type of per-capita sales tax disbursement would end predatory redevelopment and return cities to an equal footing. Assured of a stable revenue flow based on population size, cities could concentrate on providing basic services, rather than subsidizing new businesses.

Debt Control: Make redevelopment debt subject to voter approval. This would limit debt issuance and make agencies more publicly accountable.

Mandatory Sunsets: The 40-year sunset law must be given teeth and enforced. If redevelopment agencies truly have eliminated blight, then there should be no further need for them.

Infrastructure: Redevelopment funds are public funds that should be spent on public infrastructure, not on private projects. Tighter state legislation should restrict expenditures to improving public streets, parks and other facilities.

Comprehensive Fiscal Reform: A rational and stable method of funding local government must be found, shifting cities back to greater reliance on property taxes and less on sales taxes.

A CRA-backed initiative (Prop 65, Nov. '04) threatens to constitutionally guarantee future tax increment revenue. Bad idea.

Another ballot proposal by the legislature offers protections for local revenues, while allowing for future reforms.

Many redevelopment bills are introduced into the legislature every year. The most significant recent law is AB 178, by Assemblyman Tom Torlakson (D-Martinez) and signed by Governor Davis in December, 1999. It requires any city that uses public money to lure away an existing business from a neighboring city to reimburse that city for half the sales taxes lost. Any cities victimized by predatory redevelopment may now sue to recover up to half the lost sales taxes

Numerous recent studies and legislative commissions have concluded that redevelopment abuse must be addressed within the need for comprehensive state and local fiscal reform:

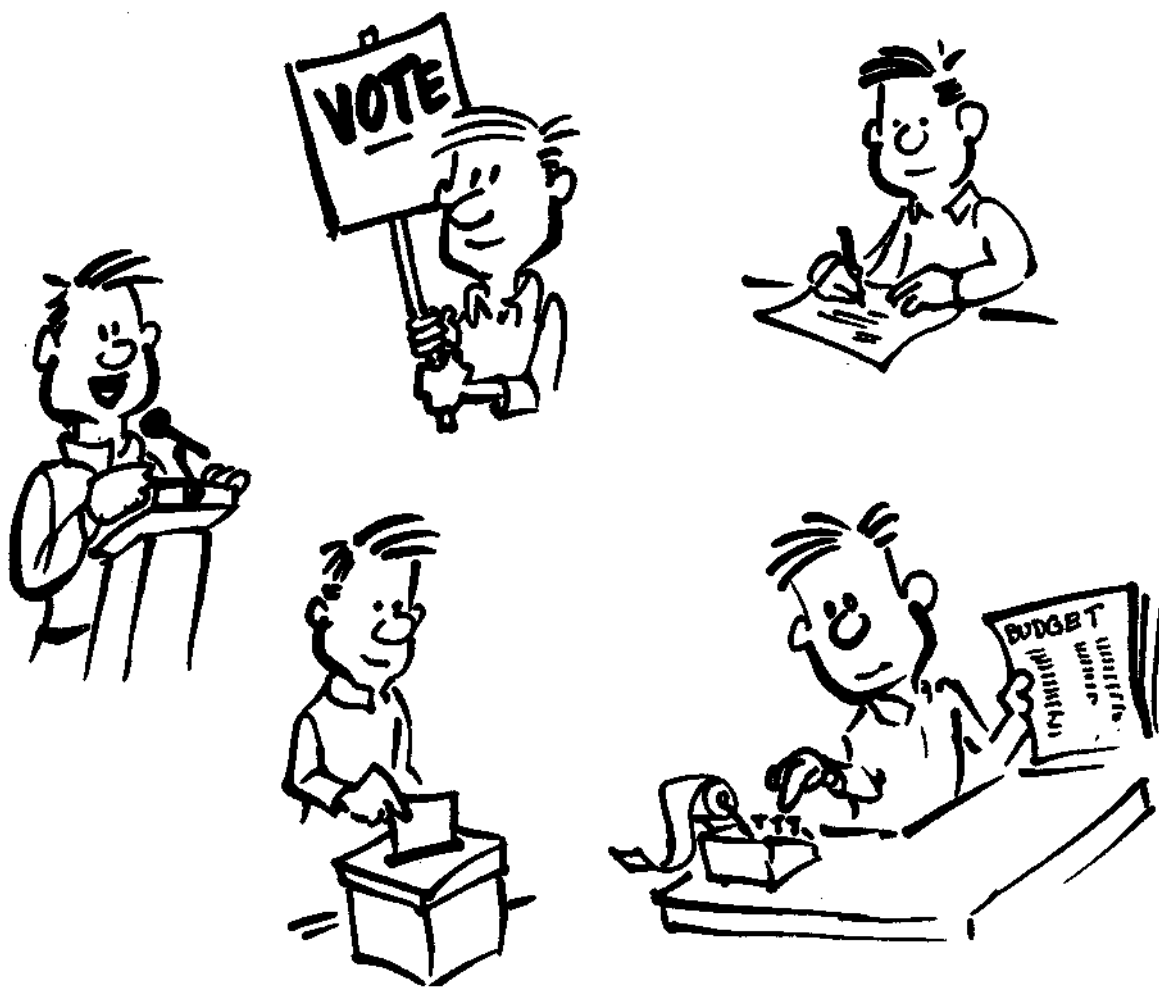
SMART Report: State Controller Kathleen Connel's 21-member State Municipal Advisory Team (SMART) published its 1999 report, *Generating Revenue for Municipal Services*, recommending a 10-year phased-in per-capita sales tax formula, and a greater share of the property tax for cities.

Wilson/Hertzberg Commission: The 14-member bi-partisan Commission on Local Governance for the 21st Century released its 222-page report, *Growth Within Bounds*, in January, 2000. It noted with alarm the doubling of redevelopment area acreage (Table 3.2), and "recommends that the point-of-sale allocation of the sales tax be revised to mitigate its effect on the 'fiscalization of land use' and that the allocation for property taxes be increased to more completely fund property-related services."

Grand Jury Reports: County grand juries are more actively investigating redevelopment activities — and they don't like what they're finding. The 1994 L.A. County Grand Jury detailed the impact of agency revenue diversions on county operations. A 2004 Fresno County Grand Jury study found the City of Fresno's agency is sitting on \$25 million in vacant land — much of it for over 30 years. "RDA operations need to be more transparent to city officials and the general public," it concluded.

Speaker's Commission: Then-Speaker Antonio Villaraigosa's Commission on State and Local Government conducted regional hearings throughout the state. At its hearing at Cal State Fullerton, MORR representative and then-Fullerton Councilman Chris Norby gave the opening testimony. The commission ultimately called for reforms in the state-city fiscal relationship.

PPIC Studies: The San Francisco-based Public Policy Institute of California has produced two recent seminal reports: *Subsidizing Redevelopment in California* (Michael Dardia, 1998) and *California and the Local Sales Tax* (Paul Lewis & Elisa Barbour,



1999). Both note the fiscal distortions caused by redevelopment and call on the legislature for needed reforms.

New bills will certainly be introduced into the legislature, based on the recommendations of these commissions. Citizens must let their state representatives know of their support for ending redevelopment abuse within the context of state and local fiscal reform.

Many legislators still need to be educated about redevelopment by their constituents through letters, phone calls, faxes and testimony before key committees. As new term limits take effect, legislators will hopefully focus more on doing the right thing, and long-term relationships with lobbyists will be less important.

Equally important will be the impact of education advocates once they realize how

redevelopment revenues can be redirected into California's public schools. The combined political clout of the California Teachers Association and the California School Boards Association dwarfs that of the redevelopment establishment.

Opposition to redevelopment is growing and cuts across partisan lines. It includes pro-property rights Republicans and anti-corporate welfare Democrats. It includes conservatives opposed to growing public debt and liberals opposed to the destruction of poor neighborhoods. It includes free market libertarians and civil rights activists fighting the displacement of minority communities. It includes environmentalists concerned about suburban sprawl and preservationists lamenting the demolishing of historic downtowns.



13 — Reclaiming Redevelopment Revenue

Public money should be spent to serve and protect the public, not enrich private interests. The \$2.8 billion in property taxes currently diverted by redevelopment agencies can be reclaimed to meet real human needs.

State government has full powers over all 402 redevelopment agencies in California. Though administered locally, these agencies are legally and collectively an arm of state government, and can be reformed directly by the legislature or statewide initiative.

Building shopping malls, auto dealerships and pro sports stadiums is a proper function of the free market. If there is a market for them, they will all be built, with or without government subsidy. Public infrastructure, public education and public safety, however, are state responsibilities.

We, the voters of California, have the power to redirect redevelopment funds back into serving the public, either through legislation or

ballot initiative. We should do so.

Redevelopment agencies are, by law, arms of state government. By legislation or initiative, the state has ultimate control over these public monies. It is time they were restored to serve the public.

What could we do with the restored property taxes currently diverted to redevelopment schemes? What could we do with the additional \$2.8 billion per year?

PROPERTY TAX RESTORATION: The property taxes (\$2.8 billion annually) could be returned to public education and local government. Currently public schools receive 57% of all property taxes statewide, counties receive 21%, cities receive 12% and special districts receive 10% (before redevelopment takes its share). Without redevelopment, the restored tax revenues would then be shared accordingly:

TABLE 13.1
Annual Revenue Gains by Public Entity
With Restored Property Taxes

K-12 Public Schools:	57% = \$1.596 billion
Counties:	21% = \$588 million
Cities:	12% = \$336 million
Special Districts:	10% = \$210 million

\$2.8 billion

With \$1,596,000,000 added annually to school funding, over 20,000 teachers could be hired, reducing class size, adding after-school programs and individual tutoring.

With an added \$924 million, cities and counties could hire 15,000 more police and sheriffs officers, buy 35 million more library books, improve paramedics or expand youth services.

INFRASTRUCTURE FUND: Rather than add public personnel, the \$2.8 billion could be dedicated to maintaining and improving public infrastructure. Current estimates run as high as \$30 billion in major repairs needed to our streets, bridges, sidewalks and water systems. The unknown demands of the current electricity crisis further strain the budget. Add school repairs and the needs are even more staggering.

Restoring the \$2.8 billion currently diverted by redevelopment agencies into statewide infrastructure would make up for years in deferred maintenance without raising taxes. It would provide local government with the funds needed to fix their streets and classrooms.

The original rationale of redevelopment was to eliminate blight. It was a temporary fix for a temporary problem. Redevelopment agencies were never supposed to hoard an ever-

growing slice of property taxes indefinitely. Let them share it now.

More importantly, how better will blight really be eliminated? By building more commercial development? By encouraging California consumers to buy ever more merchandise? Or by better educating our children? What good are new NFL stadiums in San Francisco, Los Angeles or San Diego, if our streets and water systems are crumbling?

Any true fiscal reform must include the restoration of property taxes now diverted by redevelopment agencies. In addition, reform of the sales tax will remove the motive for the commercial subsidies. Several reform commissions (Chapter 12) have also recommended a greater share of general property taxes assured for cities. In whatever form change occurs, redevelopment will have no long-term future in a system of rational government finance.

When redevelopment is fully understood, change will come quickly. When it is no longer *The Unknown Government*, policies promoting fiscal responsibility, free enterprise and fair play for all Californians will finally be restored.

14 — Sources / Suggested Further Reading

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Redevelopment: The Unknown Government

- Seventh Edition: August 2004 (10,000 copies)
- Sixth Edition: September 2002 (10,000 copies)
- Fifth Edition: July 2001 (10,000 copies)
- Fourth Edition: April 2000 (10,000 copies)
- Third Edition: August 1998 (7,000 copies)
- Second Edition: May 1997 (5,000 copies)
- First Edition: October 1996 (5,000 copies)