Local governments face a future without redevelopment agencies.

By James Krohe Jr.
California Gov. Jerry Brown's proposal for use of redevelopment revenues, which were estimated to total $5.2 billion in the 2011–2012 budget.

### Tax increment revenue

<table>
<thead>
<tr>
<th>Redevelopment debt</th>
<th>Local governments according to property tax allocation laws*</th>
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<tbody>
<tr>
<td>K-14 Schools</td>
<td>Counties</td>
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<tr>
<td>57%</td>
<td>21%</td>
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*Estimated statewide percentages. Counties would also receive a small portion of funds allocated to special districts. Specifically, property tax revenues that would currently be allocated to enterprise special districts would instead go to counties. Source: lao.ca.gov

DECEMBER 2011, THE BIG ONE FINALLY STRUCK CALIFORNIA. That's when the California Supreme Court upheld a state law dissolving local redevelopment agencies, which ran development programs underwritten by tax increment financing. The ruling was an earthquake for which no one was fully prepared. By putting the nation's largest and oldest TIF program out of business, the decision brought the state's redevelopment infrastructure crumbling to the ground.

The new law took effect in February 2012, beginning a complicated and controversial process to wind down the business affairs of more than 400 RDAs that controlled about $5 billion a year in tax revenue. It has led to confusion, lawsuits, squabbling among agencies over who gets to keep what, and complaints about high-handed state bureaucrats.

In others words, it's government as usual in California.

### Winding up the wind-down

Managing the wind-down was left to officially designated successor agencies, usually the city or county that created the RDA. From a welter of RDA contracts, deeds, and loans, each successor agency had to determine how much money was needed to pay off what were, by state definition, "enforceable obligations" such as interest owed on debt and payments under contracts. In addition, each successor agency is expected to manage ongoing work and in general tend to the fiscal housekeeping until all RDA-funded projects are finished and all debts paid off.

Meanwhile, each county's auditor-controller set aside that portion of the local property tax take that had been going to local RDAs. Some of it was given to successor agencies to pay their obligations. What was left in the kitty—cash, land being held for redevelopment, everything in fact except assets built and used for a governmental purpose—was handed over for redistribution to that county's schools and to other local agencies providing so-called core services.

Looking over the shoulder of the successor agency is a seven-member oversight board. Seats on these oversight boards are filled by representatives of affected local taxing agencies. Like successor agencies, the oversight boards fade into the California sunset when all of the indebtedness of the former RDA has been repaid.

Looming over both is the state's Department of Finance, which was charged to police the implementation of the RDA dissolution legislation.

### The kill list

Deadlines were tight. Worthy projects still under discussion were shut down, while dubious projects—of which California cities had many—that were actually under construction could be finished.

The Community Redevelopment Agency of Los Angeles had 26 projects under way when the shutdown occurred. Several important ones were judged by the state to be done deals that merited continued funding. Among the survivors are a downtown family center and a transit-oriented development in Koreatown whose 464 apartments make it the largest post-2008 residential project in that city, according to its backers. Also approved was spending for the affordable housing piece of a long-stalled plan to revitalize the area around Disney Hall, and the renovation of the century-old Southern Pacific train depot in North Hollywood.

However, money also was approved to finish The Broad, a museum in the Civic Center area of downtown to house the contemporary art collection of developer Eli Broad. One local commentator, echoing a general complaint, decried it as a "billionaire's vanity project."

More commonly, the wind-down killed off wanna-have-it projects. Santa Monica's case is typical. The budget for a renovation of the historic Civic Auditorium doesn't add up now because of the loss of roughly $47 million of RDA funds. City Hall will also suspend its agreement with the Santa Monica-Malibu Unified School District to fund a $350 million transformation of the Santa Monica High School campus into a community recreation and cultural center; this Civic Center Joint Use Project, as it is known, needed $57 million in RDA money to get off the ground.

The city of Oakland, eager to keep its pro baseball Athletics from moving to a long-planned new stadium across the bay in San Jose, had proposed building a new ballpark on its downtown waterfront. The plan was abandoned because that site includes several privately owned parcels that the city can no longer afford to buy without RDA money.

Other cities' projects were not killed but had to be downsized, suspended until new funding can be found, or both. In the Bay Area, a high-density, mixed use, transit-oriented complex at the South Hayward BART station approved in 2009 was to include a parking garage, supermarket, and 788 residential units, 206 of which would be below-market or affordable apartments. Roughly a third of the funding was to come from RDA funds. Because of dissolution, construction of the supermarket and garage was put off and the housing reduced to about 151 affordable and 206 market-rate units.

The city of Irvine hoped to build a new Orange County Great Park to rival Balboa Park in San Diego, Griffith Park in Los Angeles, and Golden Gate Park in San Francisco. A development firm had purchased the decommissioned 4,682-acre El Toro Marine Corps Air Station in Orange County and donated much of it to Irvine for the project, in return for the right to revenues generated
by new homes and commercial sites built on the remainder.

However, state officials ruled the project did not pass the enforceable obligation test and denied it the $1.4 billion in local property tax revenue the city was depending on to build it. Irvine contested the state's decision in state courts and is exploring other funding options to complete the original plans for what one reporter wryly called Irvine's Pretty Good Park.

Another housing bust?
RDA money has been crucial in the construction and maintenance of affordable new housing in California. Amendments to state law in 1976 and 1993 required RDAs to set aside at least 20 percent of their funds for that purpose. Not all that money was spent in every city, especially in the suburbs, but roughly 25 percent of the redevelopment money collected in Oakland, for example, paid for affordable housing, and across the bay, roughly half of all redevelopment funds in San Francisco were so used.

Successor agencies handed over all of their RDAs' housing assets to separate successor entities (usually local housing authorities). Land set aside for future building will have to be sold, and hundreds of units were left unfinished. On San Bernadino's east side, for example, 183 units in a crime-plagued apartment complex at 19th and Sunrise had been demolished and renovation of the remaining 100 units was only half done when the wind-down began. To build as many affordable units as originally planned at the Hayward BART project, the city's housing authority had to lend the developers $5.9 million.

In San Jose, up to 40 percent of redevelopment funding was used to fund affordable housing, nearly 14,000 units since 1988. The economic meltdown of 2007, coupled with the more recent cuts to RDA funding, means the city will fall "significantly behind" in meeting the goals set by state housing law, says Leah Toeniskoetter, who runs the San Jose office of SPUR, the San Francisco Planning and Urban Research Association.

"The biggest planning issue for us is how to continue to support a diverse community," says Andy Agle, director of Santa Monica's Housing and Economic Development Administration. "We require affordable housing to be provided when private, market-rate housing is built. The loss of redevelopment puts much greater pressure on private development to support affordable housing needs."

In November, San Francisco voters approved creation of a permanent Housing Trust Fund to replace RDA money. It will be supplied by a variety of new dedicated taxes and business license fees that are expected to generate $20 million in its first year and supply up to $50 million annually in 30 years. However, not all California cities have San Franciscans' commitment to affordable housing, or its wealth.

Michael Lane, policy director of the Non-Profit Housing Association of Northern California, notes that cities in his state have from time to time passed general obligation bonds for affordable housing, but that those funds are virtually depleted. One option would be new local fees on market-
rate and commercial development—not likely to generate much enthusiasm.

Planning layoffs
RDAs became so numerous in part because they offered local officials a way to circumvent California’s voter-approved limits on property taxes. Municipalities and counties tapped them not only for project-related costs but for ordinary administrative expenses related (sometimes vaguely) to development.

San Jose paid housing department employees out of RDA funds or grants; the demise of the local RDA puts the future of the department in doubt. The Orange County city of Westminster, which had declared the whole city a redevelopment zone, had used RDA money to pay police, managers, and administrators. The loss of RDA funds has left Westminster with a deficit of more than $10 million, even after dozens of staffers were laid off.

In Oakland, redevelopment funds covered about $14 million of the city’s payroll costs, including all or parts of the salaries for more than 160 city positions in 11 departments. Dissolution led to the elimination of 105 positions, 80 actual layoffs, and the disbanding of the Community and Economic Development Agency.

Planning staffs have been especially hard hit. RDAs for years had pushed a lot of development through the pipelines, and local governments that relied on the resulting fees to pay their planners have been under budget pressure since the 2007 financial crash. In many offices, postcollapse operations have been reduced to basic code enforcement and permit processing. (See “The Red and the Black,” January 2012.)

Planner and author William Fulton, AICP, recalls interviewing Michael LoGrande, the planning director of LA, about a year ago. “He was showing me a bubble chart of his department. He said, ‘Every bubble used to be a unit. Now it’s a person.’”

The RDAs themselves employed thousands. In San Jose, which was the second largest in the state, the headcount dropped from 119 to only 10 employees by mid-2011.

“Some of best and brightest folks were in redevelopment,” explains Mike Oliver, president of the public administration consultancy Municipal Resource Group and himself a past city manager of three California cities. “They had to be, to be able to deal with sophisticated private-sector development firms.” The loss of experienced staff has complicated the wind-down process in more than one California city.

Cleaning up
“It’s a mess,” said Nia Tang, now a senior development analyst for the city of Santa Monica. Commentators have likened the dissolution of RDAs to nuclear war, train wrecks, civil war, even colliding sausages. In addition to the predictable paperwreck snafus, the state’s initial calculations about how much RDA money could be recovered for redistribution were rushed and often inaccurate. In some cities, school district representatives on oversight boards were unprepared to deal with the complexities of redevelopment finance.

The original wind-down rules also left a lot of cracks for things to fall through. In response to the boos raining down on Sacramento from the cities, the state assembly hurriedly drafted and passed a budget “trailer bill.” Usually referred to as the RDA Cleanup Bill, the act cleared up some ambiguities and extended some deadlines.

The trailer also introduced new controversies. In July the League of California Cities sued the state, claiming that the bill gave the state Department of Finance unconstitutional power to claw back city sales taxes and city property taxes to meet what the state said were the successor agencies’ obligations to the state. The LCC said it was unfair to take money from cities for errors made by the RDA successors, which were legally separate entities. The nonpartisan Legislative Analyst’s Office calls this new authority “unprecedented.”

Getting stuck with the check
By law the state must provide a minimum level of funding to local schools. That required that the state make up more than a billion dollars a year in funding lost to school districts by RDA diversions. Pressed by its own money problems, California has been aggressive in replacing those subsidies with recovered RDA monies.

Local successor agencies have disputed the size of the demands being made by Sacramento on their residual RDA funds. The state claimed the right to require the surrender not only of assets committed after the law was passed in June 2011, but also all redevelopment assets transferred to a city, county, or other public agency after January 2011, when Gov. Jerry Brown announced his intention to dissolve the agencies.

San Marcos, Oceanside, Vista, Chula Vista, and National City unsuccessfully challenged the state’s claim on their RDA funds in state courts last May, after the state ordered San Marcos to surrender $19.6 million to the county auditor-controller for distribution to other local agencies. Vista claims the state inflated its bill by $4.7 million, leaving the successor agency there so short of money that it had to ask the Vista city council to lend nearly $2 million from a fund for drainage improvements.

The decisions led some local officials to plead for a “time out” while state and local authorities worked out their differing interpretations of the wind-down rules, and indeed the pace of reviews has slowed.

As dissolution loomed, many RDAs (sometimes prodded by their development partners) tried to protect projects and funds from redistribution. One way to hide the silverware from the state was to speed up financing deals. Another was to enter into “cooperation agreements” under which their city, county, or another local agency such as an economic development corporation would, in effect, continue to function as the RDA and protect their assets from state scavengers.

The state’s Department of Finance had warned all cities against such moves. Since
last May the state has disapproved more than two dozen budgets because of questionable payments. Among them was the $175.6 million in real estate, cash, and invested funds that redevelopment agencies in Milpitas (in San Francisco’s South Bay) shifted to the city and to the Milpitas Economic Development Corporation.

The bankrupt city of San Bernardino entered into a project funding agreement that pledged more than $500 million that would have been collected by its RDA to the local economic development commission. The state’s Finance Department nixed the deal.

Municipalities also have complained that the state’s rules unfairly burdened local governments with debt contracted by their RDAs. The RDAs both lent and borrowed money with their respective municipal governments at no interest or at favorable interest rates as circumstances permitted, to reduce borrowing costs. The wind-down rules state that such loans cannot be automatically included in a successor agency’s repayment schedule.

The Department of Finance nixed 24 items that the Santa Clara successor agency put on its repayment schedule as potentially not “enforceable obligations.” That includes nearly $10 million that Santa Clara loaned its RDA more than a decade ago from general funds to cover a deficit in the agency’s affordable housing fund.

Said Jim Kennedy, interim executive director of the California Redevelopment Association, an organization that was itself later dissolved, “There’s no reason that I’m aware of that would suddenly turn valid debt into worthless debt simply by virtue of state legislative action.” The state is likely to prevail, but the courts might yet have a say.

An empty cookie jar
For several years now, property values and thus taxes have failed to keep pace with the cost of RDA borrowing in overextended cities. The head of the Property Tax Division of the Los Angeles County’s Auditor-Controller’s office has warned that the roughly

$74 million that the city of Santa Monica gets each year from redevelopment districts will be just enough to cover its obligations.

If current tax diversions into RDA accounts prove insufficient to cover the old RDA debt, cities will have to service that debt out of their general funds, up to $25 million a year under the wind-down rules. It was their fear of getting stuck with the check that led a few parent governments to opt out as successor agencies.

The city of Los Angeles, for example, demurred out of fear that it might be burdened with liabilities owed by its RDA on top of a $200 million shortfall in its own budget for the year. (In such cases the state takes over the job.)

The successor agencies also must pay the administrative costs of the wind-down. Santa Clara estimates the cost for shutting down its RDA may be more than five times the $250,000 allowance for such costs set by the dissolution bill.

Such shortfalls are common among cities that had extensive RDA operations. It’s been estimated that Long Beach’s general fund may end up having to absorb as much as $2 million in such costs in the first six months of the wind-down process alone. From the cities’ perspective, having to cover the costs of handing over their money to the state is adding insult to injury.

Rearranging the rubble
The RDA wind-down sparked a lot of I-told-you-so messages from RDA critics and much fretting by municipal bond raters. The planning community has expressed more fundamental worries. The rise of RDAs was as profound a change in local government finance as 1978’s Proposition 13, whose cap on local property taxes created the budget hole that the RDAs would do so much to fill. The fall of RDAs might prove just as important.

“The ability of local jurisdictions to enhance their competitive position is gone,” says Mike Oliver. “Someone else has to write the check for that sewer.” Oliver also worries that the loss of RDA-type funding will especially hurt cities. RDA money was used to close the development cost gap between urban and suburban areas. “It will push development back out on the periphery, where costs are not as high,” he says.

Staffers of SPUR, the San Francisco Planning and Urban Research Association, which calls itself the citizens’ voice for good planning, voiced a general opinion when they blogged, “We are going to need new tools if our cities are to thrive.”

One of those tools might be some form of “RDA lite.” “Eventually, some form of tax increment financing will be reinstated,” says Bill Fulton. “But I don’t think it will ever come back in California on the same scale as before.”

Michael Lane, among others, says that eliminating RDA abuses via reform would have been better than eliminating the agencies themselves, but “the wait for the legislature to fix this could take a long time.”

James Krohe Jr. is a California writer who frequently contributes to Planning.