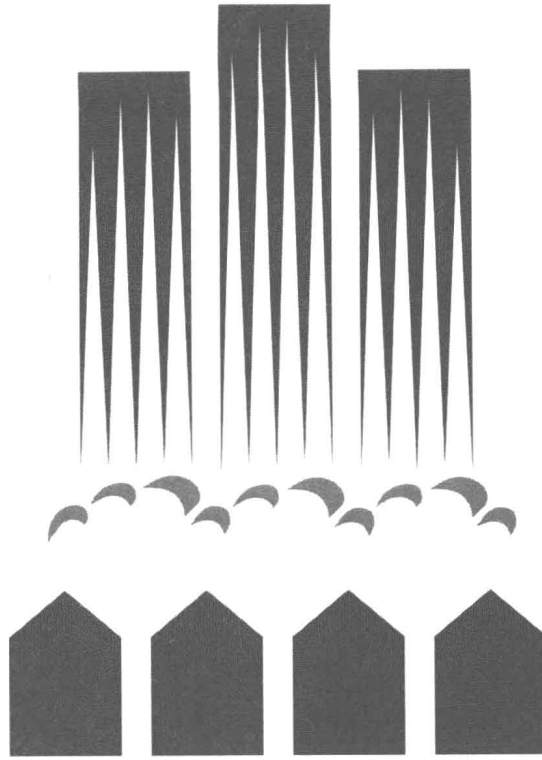


INTRODUCTION *to* REDEVELOPMENT

FIRST EDITION



CALIFORNIA REDEVELOPMENT ASSOCIATION



Introduction to Redevelopment

First Edition

California Redevelopment Association

About the California Redevelopment Association

CRA—the California Redevelopment Association was established in 1979 as a nonprofit California corporation. It was established specifically to represent redevelopment agencies throughout the State of California before the State Legislature on matters that effect the redevelopment process. As the size and scope of redevelopment activities have increased, the size and complexity of the redevelopment law has grown. CRA works closely with the legislative and administrative branches of the state government to assure that the redevelopment law continues to be an effective and adaptable tool that operates under the “home rule” of local elected officials.

The second major mission of CRA is educating public officials, private individuals and organizations about the various aspects of the redevelopment process. CRA conducts over thirty educational seminars and workshops each year and publishes workbooks and documents regarding the full spectrum of redevelopment practice. These high quality training events, books and documents are the primary source of information for the redevelopment professional.

CRA membership is composed of public and private organizations. CRA has 300 member redevelopment agencies and 200 associate member private companies. Financial support for CRA is primarily through the membership dues, seminar registration fees, and the sale of publications.

CRA is governed by a Board of Directors consisting of 18 representatives selected from redevelopment agencies throughout the State of California. Members elected to the Board determine the policy direction for the organization and programs the CRA administers.

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Introduction to Redevelopment in California

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Foreword

This is an important book for those interested in understanding the fundamentals about a complex and powerful process utilized by three-fourths of the cities and counties in the State of California. Redevelopment agencies are the primary agencies of local government in California that have the legal authority, ongoing funding, and mission to reverse the deleterious effects of physical and economic conditions of blight. Utilizing long-proven methods and leading-edge ideas to rebuild neighborhoods and business districts, redevelopment in California has grown to be the most comprehensive and successful state framework for the public sector to work directly with private property owners, business owners, investors, developers and tenants to revitalize declining areas of a local community.

Because the California redevelopment process is over 50 years old, it has been amended many times by the state legislature to ensure that redevelopment meets the current needs of the citizens of California. As California has changed, so has redevelopment. Although the mission of redevelopment to eliminate the cancer of blight and revitalize communities remains the same as when the process was first enacted into law in 1945, the redevelopment process has proven to be not only remarkably adaptable to the current situation, but anticipative of the future needs of California cities and counties. Numerous communities have avoided the ravages of slums and decay because elected and appointed officials have exercised the leadership to educate their citizens about the benefits of actively working with private individuals and organizations to rebuild deteriorating areas of their community. Although redevelopment is controversial at times, the process is a time-proven success for those communities that exercise foresight and patient administration by conscientious officials representing the citizens of their community.

Because redevelopment law is complicated, it is often misunderstood. The purpose of *Introduction to Redevelopment* is to demystify the redevelopment process. There are many aspects of redevelopment that practitioners must understand in order to effectively use redevelopment to improve a community. The authors of the various chapters and case studies will share their vast experience in redevelopment through factual explanation, advice and examples that will enlighten the uninitiated and stimulate those experienced in the process. If one is willing to invest the time and effort needed to learn the principles and practice of redevelopment, it will prove to be a relatively straightforward process.

I encourage you to not only read this text, but tour the state of California. See first hand the tremendous improvements that benefit the lives of Californians every day because an obscure process called redevelopment has been sensibly used to renew declining parts of the cities throughout the state. Your tour will also bring home the fact that the war against blight is not won and that redevelopment must continue to be utilized if the communities of California are to be safe, healthy and prosperous. The people of California are optimistic as we look toward the new century. Redevelopment will continue to contribute to this optimism. This text will explain how redevelopment works for the people of California.

William A. Carlson
Executive Director
California Redevelopment Association

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Chapter I

Introduction to Redevelopment in California

By William A. Carlson—Executive Director and Christopher G. Hart—Legislative Analyst, California Redevelopment Association

Redevelopment is the primary tool used by cities and counties in California to revitalize deteriorating and blighted areas of neighborhoods and business districts. Utilized by over two-thirds of the cities and one-third of the counties in the state, redevelopment has grown to be the largest locally-controlled and locally-funded economic development and revitalization program in the United States. Unlike many state and federal programs, redevelopment agencies in California do not depend upon annual grants or loans made by other levels of government in order to fund their activities. A stable, long-term source of funding has proven to be a solid foundation for rebuilding blighted areas of numerous communities. In this book, the reader will be introduced to this powerful and effective tool that has been used to change the physical character and economic base of blighted areas of communities throughout the state.

The redevelopment law in California was adopted in 1945 as the Community Redevelopment Act. Initially, the law was patterned after the federal housing acts adopted in the Depression of the 1930s to deal with slums and inadequate housing across the country. Funding for the program was largely federal, and proved to be inadequate, although housing and urban renewal funds continued to flow to redevelopment agencies in California and other states through a number of federal programs enacted over the years. In California, a significant turning point occurred in the adoption of a state Constitutional amendment in 1952. The voters of the state approved a new financing technique that has come to be known as “tax increment” financing.¹ Based upon the increasing value of the property created by the activities of

the redevelopment agency and resulting private investment, tax increment revenues weaned California agencies away from dependence on federal or state grants and loans. Local property tax increment is the predominant source of revenue for redevelopment agencies. This funding method will be explained in Chapter 3.

The initial growth in redevelopment was slow, with only 46 redevelopment agencies established by 1965. As understanding of the redevelopment process grew, additional cities began to activate agencies and adopt project areas (see Table I-I). By 1975, 158 agencies had been established with a total of 202 project areas. After the “taxpayer revolt” in 1978 led to the adoption of Proposition 13, the formation of redevelopment agencies and project areas accelerated throughout the 1980s. By 1990, there were a total of 366 redevelopment agencies and 658 project areas. Since that time, the rate of formation has significantly slowed. As of August 1, 1994, there are 388 redevelopment agencies and 709 project areas.²

What is Blight? Why is it Important?

Redevelopment is a process and program of activities undertaken by a local government to deal with the impact of blight and slums. The State Constitution and the Community Redevelopment Law establish a complex legal process that endows a city or county with specific authority to both establish a redevelopment agency and one or more redevelopment project areas. The primary criteria under the law that allows a city or county to initiate a redevelopment agency and project is blight. Blight is a legal term that

Table I-1 Growth of Redevelopment

FISCAL YEARS	AGENCIES		PROJECT AREAS	
	ESTABLISHED	TOTAL	FORMED	TOTAL
1991-94	24	388	49	709
1986-90	52	364	158	660
1981-85	115	312	203	502
1976-80	39	197	97	299
1971-75	72	158	127	202
1966-70	40	86	44	75
1961-65	14	46	19	31
1956-60	24	32	9	12
1951-55	4	8	1	3
1940-50	4	4	2	2

Source: State Controller's Report

- ◆ High crime rate that constitutes a serious threat to public safety and welfare; and
- ◆ The lack of adequate public infrastructure.

As will be explained in greater detail in Chapter 2, blight must be present in order to establish a project area. Without a predominance of blighting conditions such as those listed above, a redevelopment project area cannot be established. The definition of blight has been changed several times over the years by the state legislature in response to perceived or actual cases of abuse or expansive use of the then current definition of blight. A number of redevelopment project areas include land that could not meet the current definition of blight. As the law has narrowed the definition of blight, these project areas (legal under a defi-

encompasses an enumerated list of conditions. It is not only a prerequisite required for the adoption of a redevelopment project area, but it is what a redevelopment agency must spend its money to resolve. Under the redevelopment law, blight includes:

- ◆ Buildings that are unsafe or unhealthy for occupancy caused by code violations, dilapidation, defective design, faulty utilities, etc.;
- ◆ Factors that prevent or substantially hinder the economically viable use of buildings or lots, caused by substandard design, inadequate size, lack of parking, etc.;
- ◆ Incompatible uses that prevent economic development;
- ◆ Subdivided lots of irregular form and shape and inadequate size for proper usefulness that are in multiple ownership (postage stamp lots);
- ◆ Depreciated or stagnant property values or impaired investments, including properties that contain hazardous wastes;
- ◆ Abnormally high business vacancies, abnormally low lease rates, high turnover rates, abandoned buildings, or excessive vacant lots within an area developed for urban use and served by utilities;
- ◆ Lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, banks, etc.;
- ◆ Residential overcrowding or an excess of bars, liquor stores, or other businesses that cater exclusively to adults, which has led to problems of health and welfare;

nition of blight at the time of adoption) were "grandfathered" and are still valid redevelopment projects today, even though a redevelopment agency could not adopt the same project area under today's law. Even though the law has been tightened in respect to blight, it is still common for opponents of redevelopment to point to project areas adopted under the less restrictive historic laws as examples of the misuse of redevelopment, regardless of their legitimacy at the time of adoption.

For example, prior to 1983, a community without adequate flood control for a portion of their community could adopt a redevelopment project area and use the funds from the project area for construction of storm drains and other flood control facilities. The ability to adopt a project area based solely on the lack of adequate public infrastructure was eliminated in 1993. Although several project areas were adopted under the old law and continue to exist, using lack of flood control infrastructure as a basis for the blight, such a project area could not be adopted under the law in effect in 1996.

Who Uses & Controls Redevelopment?

Only cities and counties have the authority to establish a redevelopment agency, redevelopment project areas and redevelopment plans. Typically, the city council or the board of supervisors acts as the governing board of the redevelopment agency. As elected officials, they are directly responsible to the voters in their community for the activities and programs of the agency. In about a dozen cities, a separate commission appointed by the city council oversees the activities of the agency. There are special organizational

Illustration I-1

The redevelopment agency has powers that are typical for a local governmental agency and three unique powers that are exercised only by redevelopment agencies.

These general powers include the authority to:

- ♦ Organize its affairs and staffing to carry out the redevelopment plan;
- ♦ Adopt a budget and a system to pay and account for its expenditures;
- ♦ Buy property;
- ♦ Sell property;
- ♦ Make certain types of loans or grants to carry out the redevelopment plan;
- ♦ Construct improvements on property;
- ♦ Construct infrastructure, such as streets, sidewalks, water and sewer systems, street lighting, landscaping, signs and signals, parking facilities and other public improvements;
- ♦ Assist development by property owners, developers or manufacturing companies to carry out the redevelopment plan;
- ♦ Rehabilitate, modernize, consolidate or remove structures where needed to implement the plan; and
- ♦ Assist in the development or rehabilitation of housing for use by moderate-income and low-income families.

In addition to these general powers, a redevelopment agency has unique powers that were conferred for the purpose of revitalizing areas suffering from the blight that justified the creation of the redevelopment project area. These powers are frequently the most controversial activities of an agency:

Powers of a Redevelopment Agency

(1) The ability to buy private property for resale to another private person or organization.

This ability to actively intervene in the activities of the private marketplace is one of the most useful and effective tools available to an agency. When decades-old land use patterns or construction do not allow for modern use and development, the agency may acquire one or more properties for consolidation or reconfiguration to enable private, market-based development to occur. No other local public agencies are so directly and actively involved in the private real estate market;

(2) The ability to use the power of eminent domain (condemnation) to acquire private property.

Eminent domain is a powerful tool that redevelopment agencies use with great caution. Although every property in the state is already subject to governmental use of eminent domain by the state, counties, school districts, utilities, and cities for the purpose of public use, redevelopment authority goes further by authorizing the use of this power to "take" private property, upon paying a fair price for the property and relocating tenants. The agency may then resell the property to another private organization or individual so long as the subsequent use of the property carries out the redevelopment plan and eliminates blight. The use of eminent domain powers is limited to twelve years.

Because this is one of the most controversial powers of a redevelopment agency, and

often the focus of opposition during the adoption of a redevelopment project area, a number of agencies have restricted their authority to use eminent domain to specific properties, to designated incompatible or offensive uses, or to serve only public improvements. A few agencies have relinquished their ability to use condemnation powers entirely; and

(3) The power to collect property tax "increment" in order to finance the redevelopment program of the community.

A redevelopment agency has no power to levy a tax of any kind. An agency does not affect the property tax distribution for the city, county or schools that exist at the time a project area is adopted. The establishment of a redevelopment project area will only divert a portion of future property taxes generated within the defined project area. Under current law, the distribution of property tax increment revenues is governed by a formula contained in state law. The three "Noes" of redevelopment finance are:

- ♦ No new taxes
- ♦ No new assessments
- ♦ No new fees

The system of property tax increment was approved by the voters of the state and added to the California Constitution in 1952. Since the start of this method of financing redevelopment, total statewide property tax revenue has climbed to a level of \$2 billion annually. Details regarding property tax increment are in Chapter 3.

The agency will determine the type of projects based upon the character of the neighborhood or district, the nature of the blight within the project area, the needs and desires of the property owners, businesses and tenants in the area, and the market support for various types of projects. All decisions are tempered by what is acceptable to the citizens of the community within the political context at any given time.

forms in several communities. In Sacramento, the affairs of the agency are handled by a joint city-county agency. In San Diego and Fresno, a nonprofit corporation handles the day-to-day affairs of the agency in the downtown area under a contract with the agency.

When the voters elect the city council, they also elect the redevelopment agency board of directors (or those responsible for the appointment of the board). If the voters do not approve of the actions of their elected officials, they can exercise their citizen-rights and elect new representatives at the next election. The voters have the final say and control over their redevelopment agency through their elected representatives and the election process. In addition, the state redevelopment law contains numerous requirements for public information and citizen involvement prior to decisions by the board.

The administration of the affairs of the redevelopment agency are carried out by the staff of the agency. The size of the staff and scope of programs in redevelopment agencies varies widely. In large redevelopment agencies, there is a staff that is completely separate from the city. In mid-size and smaller agencies, the administration is typically handled by existing city staff in addition to their other city responsibilities. The city manager or a department head typically serves as the executive director of the redevelopment agency. The city planning, community development, public works and finance departments are frequently involved in developing and administering agency programs. An agreement between the city and its redevelopment agency will set the terms of their relationship. Because of the complexity of state redevelopment laws and federal regulations, combined with the limited size of the agency staff, redevelopment agencies frequently find it cost-effective to contract for specialized services from financial consultants, legal advisors, architects, engineers, and other specialists.

What Do Redevelopment Agencies Do?

Redevelopment agencies undertake a wide variety of projects and activities designed to improve a project area and eliminate blight. The agency will determine the type of projects based upon the character of the neighborhood or district, the nature of the blight within the project area, the needs and desires of the property owners, businesses and tenants in the area, and the market support for various types of projects. All decisions are tempered by what is acceptable to the citizens of the community within the political context at any given time. Listed below are examples of the types of projects that have been undertaken by redevelopment agencies in various communities. This a typical list, but is by no means exhaustive.

Downtown Revitalization—The most common overall project undertaken by redevelopment agencies throughout the state involves older downtown areas that have fallen upon hard times. Due to the development of outlying shopping centers, office buildings and industrial parks, numerous downtown areas suffer from high vacancies, marginal retail stores, deteriorating infrastructure and aging housing stock. There is often a corresponding increase in social problems and crime associated with a declining downtown. The land uses, size of lots, parking availability and proximity, and building size and configuration reflect the retailing and office needs of a bygone era. Today, the area may be functionally obsolete for modern retail and office user patterns. As stores and office users move away from “Main Street,” property owners may not be willing to invest capital in their building until a new tenant can be secured. If rents drop in order to attract tenants to the declining area, the land owner is not likely to put much money into building maintenance and improvement. Or, the owner may be willing only if other property owners on the block or in the district agree to improve their buildings so the entire area is improved.

The type and scale of downtown improvements are as varied as the cities within the state. One agency concentrates on historic preservation, another on building a new downtown shopping center. A community may assist in the construction of a downtown entertainment district of theaters and restaurants, while another focuses on office buildings and hotels. A city may work diligently to attract new industry or to assist local manufacturers’ expansion, while another city works equally hard on tourism attraction. Each downtown strategy, whether housing, retail, commercial or industrial will be planned and executed by local officials acting under the authority of elected representatives of the community that it serves.

Retail Development—Many communities would like to see their merchant businesses grow and prosper. Whether it is a long-established business operating in a deteriorating

“strip” shopping center, or a new start-up business looking for cheap rent in a marginal area, most cities focus part of their efforts on retail expansion and attraction. Agencies will use a variety of means to assist, including market analysis, façade improvements, streetscape improvements, land assembly, parking facilities, transportation system improvements and similar activities.

Retailing encompasses a wide variety of products and stores. One first thinks of department stores, markets and boutiques, but it also includes furniture stores, automobile dealerships and warehouse clubs. Even less recognized are medical suppliers, large industrial equipment sales and building materials. The city or county from which these retail sales are made gain sales tax revenues for their general operating budgets. This is frequently strong motivation for a local government to support retail growth in its redevelopment project areas. It also leads to criticism of “cash-box” decisions. Regardless of the motives, as long as the retail development assists in carrying out the redevelopment plan and the mandate to eliminate blight within the project area, it is a legitimate purpose of redevelopment. However, there are legal limitations upon redevelopment agencies assisting financially with certain retail developments located on bare ground. These limitations will be discussed in a later chapter.

Commercial Development—As an area declines, it is frequently accompanied by an exodus of professional and business offices to suburban office parks and the construction of hotels and motels to serve the business traveler outside the deteriorating area. Many agencies undertake a focused program to attract these or similar business to the blighted area in order to restore the area to an attractive state. It is common for agencies to assist in the acquisition of land of sufficient size to house the desired office building(s). In order to attract private investors to the deteriorated area, and secure the type and scale of building desired, the land may be sold at or below the market value. In addition, the agency will frequently assist in the reconstruction of streets and sidewalks, build new parking facilities and upgrade underground utilities to serve the building.

An office building will breathe new life into the area by bringing new employees and clients into the blighted area. This will mean new customers for restaurants, shops, banks and service facilities in the district. As a greater number of buildings can be reconstructed or built, it will attract added private investment and stanch the downward trend of a business district.

Industrial—Historically, many manufacturing and industrial businesses have been located in or near the center of a city. However, as land was fully utilized, and prices increased, growing businesses moved to outlying areas. Over time, the older buildings would suffer for lack of adequate maintenance and changing uses. The industrial areas often

became seedy and were no longer attractive nor able to accommodate major industries. Redevelopment agencies frequently have such areas within their projects. An agency will attempt to redeem these areas in a variety of ways. One of the most effective is to contact the remaining industrial businesses in the area to assess their need for additional land or public facilities that would keep their plant, or perhaps expand it, at its current location. Agencies will often assist in the establishment of “business incubators.” An incubator is designed to be a low-cost location for a number of small businesses to get their start. With technical help from experienced entrepreneurs, each business can establish its product or service in the marketplace, and then move out on its own. Finally, agencies will work to attract new manufacturers to locate in the older area. The agency may assemble a site that will serve the needs of modern industry, expand and improve aging water and sewer systems, and reconstruct roads or access to freeways. The net result is new investment in the declining area and an increase in employment.

Residential—Agencies are required by law to expend at least 20% of their tax increment funds on low- and moderate-income housing. In addition, many agencies will work to gain private investment in market-rate housing in their redevelopment areas. Housing can be stand-alone or mixed with commercial or retail uses. Housing assisted by an agency may be either multifamily or single-family units. It can be rental housing or for-sale housing development. Agencies also assist in the rehabilitation of existing housing units and existing neighborhoods in order to maintain these neighborhoods and prevent further decline. Agencies will often provide loans or grants to existing homeowners, particularly in lower-income neighborhoods, to repair their homes or bring the units up to modern building code requirements. When major assistance is provided by an agency, the property owner usually must agree to maintain the assisted units at an affordable rent or sell the home only to a person that falls within a prescribed income range. Chapter 6 will explain the details.

Some agencies see housing as an economic development activity. By increasing the number of residents within a marginal neighborhood, the increased spending power will attract private investment by service and retail business to serve the added residential population. Other agencies see a larger population in central areas of the community as vital to creating night-time activity and preventing vandalism and crime.

Public Facilities—Redevelopment agencies spend most of their money to build or reconstruct public facilities, including streets, curbs, gutters, sidewalks, sewers, water systems, storm drains, street lights, street trees and planters, decorative paving, signs, flag and banner poles, parking lots, parks, plazas, and artwork; a variety of public buildings such

as museums, libraries, community centers, convention centers, senior centers, sports stadiums, fire stations, etc.; and historic site restoration. The investment in public facilities is critical to restoring blighted areas. The new facilities not only improve the attractiveness and cleanliness of an area, but also serve as a strong public statement of the community's commitment to invest in and

improve the blighted area. The community is putting its own money at risk, as it asks the private sector to put private funds at risk. Private investors may not be willing to invest in an area until public money is invested in upgrading the physical facilities and attractiveness of the area.

Redevelopment agencies often cooperate with other public agencies in constructing facilities. An agency may assist a school district to rehabilitate classrooms or build a new school. It may assist a transit agency in building a light rail system, and integrate retail and residential development into the transit station areas. Redevelopment may assist a county in constructing a homeless shelter or service facility for social programs. Such cooperation will often extend to joint projects with nonprofit organizations. It is quite common to work with a nonprofit housing corporation to build affordable housing. Medical clinics for low-income families have also been assisted by agencies.

Formation

The redevelopment process is initiated and implemented at the local level of government. While governed by state law, redevelopment is a local government activity. The body that oversees and manages the redevelopment process is a redevelopment agency.

In every community, the California Community Redevelopment Law (CRL) has established a redevelopment agency. However, redevelopment agencies are not empowered to act until the local legislative body (either a city council or board of supervisors) passes an ordinance that declares that there is a need for such an agency. These ordinances are subject to a public referendum.

Due to the effectiveness of the redevelopment tool, special regulations have been developed to allow redevelopment to be applied in unique situations. If a community suffers a disaster and it does not have a redevelopment project area where the damage occurs, the local legislative body may follow an emergency process to create a new project in an accelerated time frame. Special agency formation laws also exist for the revitalization of a closed military base and for specific areas of civil unrest.

The investment in public facilities is critical to restoring blighted areas. The new facilities not only improve the attractiveness and cleanliness of an area, but also serve as a strong public statement of the community's commitment to invest in and improve the blighted area.

When the purpose of the redevelopment agency is deemed complete, it can be dissolved by a motion of the local legislative body—either on its own initiative or upon the recommendation of the redevelopment agency board. If an agency is dissolved, the legislative body assumes the responsibility to assure that the agency's financial obligations are fully satisfied. Thereafter, the incremental

property tax revenue will be distributed to other taxing entities. The legislative body no longer collects tax increment revenues that were designated for the dissolved agency.

Agency Organizational Structures

The local legislative body that creates a redevelopment agency can choose one of three organizational structures. First, the legislative body can designate itself as the governing board for the redevelopment agency. The elected members of the city council or board of supervisors have control of agency policies and projects. Most legislative bodies have chosen this structure to encourage accountability, convenience, efficiency and the coordination of local programs.

The second option is to create a separate commission to govern the redevelopment agency under specific statutory authority. Certain agency activities require the approval of the legislative body (i.e., annual budget, sale of land). An advantage of this option is that commission members can be chosen for their expertise and then allowed to operate in an environment less subject to political influence. This option allows commission members to focus on governing a redevelopment agency. The San Francisco and Los Angeles agencies are examples of the commission organizational structure.

Illustration I-II

In 1993–94, 90% of California's agencies had a city council as their governing agency, 6% had a county board of supervisors, and 4% had a separate commission.³

In 1992, CRA surveyed 26 of the largest California redevelopment agencies to determine their organizational structure. The governing bodies for 23 of the agencies were city councils and three were commissions. Members of two commissions were appointed by a mayor while the others were selected through a general election.