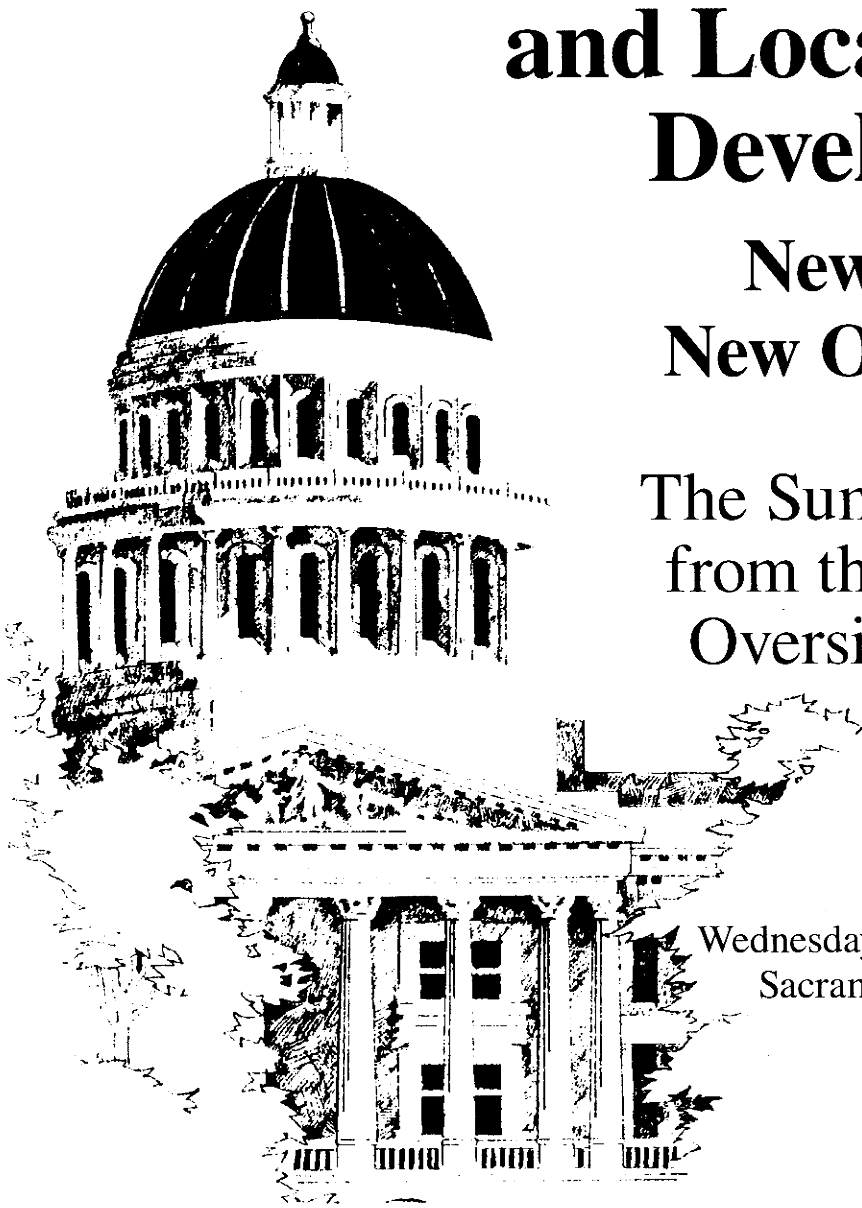
California State Legislature

Senate Committee on Governance & Finance
Senate Committee on Transportation & Housing

Financing Affordable Housing and Local Economic Development:

New Reality, New Opportunity

The Summary Report from the Legislative Oversight Hearing



Wednesday, February 22, 2012
Sacramento, California

California Legislature

STATE CAPITOL
SACRAMENTO, CALIFORNIA

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Financing Affordable Housing and Local Economic Development: New Reality, New Opportunity A Legislative Oversight Hearing

On Wednesday morning, February 22, 2012, the Senate Governance and Finance Committee and Senate Transportation & Housing Committee held a joint hearing on affordable housing and local economic development issues. The hearing at the State Capitol started at 9:35 a.m. and continued until 12:40 p.m.

Ten of the Committees' members participated:

Senator Lois Wolk, Chair
Senator Mark DeSaulnier, Chair
Senator Doug La Malfa
Senator Bob Dutton
Senator Loni Hancock
Senator Ed Hernandez
Senator Christine Kehoe
Senator Carol Liu
Senator Alan Lowenthal
Senator Fran Pavley

This report records who spoke at the Committee's hearing [*see the **white** pages*], reprints the Committee staff's briefing paper [*see the **blue** pages*], and reproduces the written materials provided by the speakers and others [*see the **yellow** pages*].

The Senate Sergeants-at-Arms audio-recorded the comments by the legislators and the other speakers. That recording is part of the Committee's official records of the February 22 hearing. A video recording of the hearing is available on the website of the California Channel: http://www.calchannel.com/channel/viewvideo/3344.

THE SPEAKERS

The Committees' agenda listed 14 invited speakers and 6 other people also spoke to the legislators about affordable housing and local economic development issues. This section captures the highlights of their comments. The speakers whose names appear with an asterisk (*) provided written materials. The appendix reprints what the speakers gave the Committee. [*See the **yellow** pages.*]

Comments by State Senate President pro Tempore

State Senate President pro Tempore **Darrell Steinberg*** was the hearing's first speaker. Senator Steinberg asked legislators to consider what they are trying to achieve in considering new affordable housing and local economic development policies. He suggested a number of principles to guide policymaking, including:

- Encouraging cooperation, not competition, between local agencies and the state.
- Making affordable housing a priority.
- Using new financing tools to realize the sustainable communities strategies authorized in SB 375.
- Moving beyond the real estate-centered conception of economic development by focusing on creating high-skill high-wage jobs.
- Respecting local control.

To pay for future programs, Senator Steinberg announced that he would author legislation that would allow local agencies to retain and manage former redevelopment agency assets for local economic development and housing purposes (Senate Bill 1151, Steinberg, 2012). The Senator reminded legislators about SB 654, legislation he authored to allow local agencies to retain the unencumbered balances that were in former redevelopment agencies' Low and Moderate Income Housing Funds. He also informed the Committees that his office was talking with public pension funds about facilitating investments of their resources in public infrastructure projects.

Senators Kehoe, Dutton, and DeSaulnier posed questions to Senator Steinberg about long-term climate change goals, workforce housing, the implementation of the redevelopment dissolution process, and the need for a collaborative approach to affordable housing and local economic development policy.

Housing Tools

California Housing Finance Agency Executive Director **Claudia Cappio** briefed the Committees' members on affordable housing tools. Citing the increasing number of Californians living in poverty and the state's continuing population growth, especially in high-cost coastal job centers, Ms. Cappio expressed a need for a new, dedicated, and permanent source of revenue to support affordable housing. She believes that funds should be allocated in a balanced way between the state and local governments but added that having a single portal for access to housing finance can reduce costs and ensure an effective use of resources. Ms. Cappio listed four priority uses of such funds:

- A mortgage guarantee fund to facilitate homeownership lending as Fannie Mae and Freddie Mac pull back from the market.
- A predevelopment loan fund to provide the start-up costs needed to get affordable housing projects off the ground.
- A gap financing fund to make projects feasible.
- A grant or subsidy fund to support housing for the most difficult to serve populations.

Ms. Cappio stated that multiple sources will be needed to generate significant revenue. New funds are not likely to meet the need for affordable housing but offer a start. When pressed by the Committees, Ms. Cappio said that she is looking at two sources, a loan origination fee on real estate loans and an origination fee on automobile loans, given the nexus between housing unaffordability and the increased need for driving.

Ms. Cappio said that she is also working on containing the costs of affordable housing. As a member of the Tax Credit Allocation Committee, she helped initiate a study of what drives affordable housing costs. The study is due out in the fall of 2012, at which time the results will help determine next steps.

Local Economic Development Tools

Marianne O'Malley* from the Legislative Analyst Office's discussed local economic development tools. Noting that redevelopment was a broad tool that local communities used in different ways, O'Malley encouraged legislators to consider which aspects of redevelopment they want to replace as they design potential replacement tools. She cautioned the Committees that academic research offers little consensus about what kinds of local economic development policies work and raises significant concerns about local subsidies to promote economic development. She called legislators' attention to three policy areas in which the research suggests that local actions might improve the local economy:

- Quality education programs.
- Major transportation infrastructure.
- Clear and effective laws and regulations.

Referring to a list of six observations about developing new financing tools, O'Malley focused on three of them:

- Taking a broad, neutral approach to promoting economic development is preferable to an approach that asks government to "pick winners and losers" through business-specific subsidies.
- A focus on financing tools should not be allowed to overshadow the benefits of regulatory reform.
- Redevelopment successor agencies' oversight boards may offer a valuable perspective on economic development priorities in their communities.

Senators Wolk, La Malfa, and Hancock asked O'Malley questions about voter-approval thresholds, oversight boards, regulatory reform, and prohibitions on business-specific government subsidies.

Local Economic Development Discussion

A panel discussion of local economic development began with City of Pasadena Mayor **Bill Bogaard*,** the First Vice President of the League of California Cities, speaking on behalf of the League. He informed the Committees that, on the same day of the hearing, the League was convening the first meeting of a task force, which he will chair, to work on local economic development issues. The Mayor noted the benefits that redevelopment had produced in his city and acknowledged that local governments face a major decline in resources after redevelopment's elimination. Describing cities and their residents as resilient and innovative, the Mayor declared that "we will move forward and face our challenges." The Mayor identified numerous topics that the League's working group planned to discuss, including:

- Addressing legal, technical, and policy issues raised by the statutes governing the redevelopment dissolution process.
- Identifying features of redevelopment that should be preserved.
- Assessing infrastructure financing districts' usefulness.
- Reviewing a League-sponsored proposal to provide tax increment financing for large-regional projects (SB 934, Lowenthal, 2007).

Mayor Bogaard asked legislators to consider four factors:

- There will be no easy solutions to replace redevelopment.
- Constitutional limitations narrow local governments' choices.
- Policymakers must hear and respect community concerns.
- Focus on the resources and let local governments take care of the rest.

Michael Yarne*, from the San Francisco Mayor's Office of Economic and Workforce Development, discussed what he termed "the post-redevelopment toolshed," a group of existing policy tools that the City of San Francisco is already using. Yarne encouraged legislators to think about how new post-redevelopment tools can complement smart-growth efforts. In contrast with redevelopment, which was developed to fight blight at a time that people were leaving urban areas, people and investments are now returning to cities. Yarne acknowledged that blight is still a concern, but said that San Francisco increasingly deals not with the problem of how to encourage investment, but rather with how to accommodate that investment. "It's about how we make smart growth smarter," said Yarne. He listed the types of tools that San Francisco has used recently, including:

- Development agreements.
- Infrastructure financing districts (IFDs).
- Mello-Roos community facilities districts.
- Business improvement districts.
- Air rights/transferable development rights.
- Transfer fees.

and provided legislators with specific examples of how San Francisco officials have used combinations of these existing tools to achieve local economic development goals.

Yarne concluded by emphasizing infrastructure financing districts' importance and suggesting four changes to current IFD statutes:

- Reconsider the 2/3-voting requirement.
- Broaden authorized uses for infrastructure.
- Allow IFDs in former redevelopment project areas.
- Allow long-term bonding by extending IFDs' maximum financing period to 40 years from the date of the first bond issuance.

Mike McKeever, Executive Director of the Sacramento Area Council of Governments, focused his comments on infill development and how housing relates to sustainable communities strategies required by SB 375. He told legislators that, according to projections, 60% of the Sacramento region's growth through the year 2035 will need to occur in infill areas, which include outer neighborhoods of core cities, as well as neighborhoods in first-tier suburban areas. Implementing such a plan will produce benefits, including:

- Less farmland and natural resource land being urbanized.
- Increased transit productivity.
- Decreased traffic congestion.

- Meeting clean air and greenhouse gas emissions requirements.

McKeever then discussed the likelihood of such plans being implemented. On the positive side, he argued that housing demand factors are favorable for successful implementation of the plans. Demographic changes and emerging market changes all point towards more medium- and high-density housing and increased demand for rental housing. He argued that a shift towards a knowledge economy also favors infill development. However, he cautioned legislators that there are significant challenges confronting infill development, including the loss of redevelopment tools.

He echoed previous speakers' comments about the importance of regulatory reform for advancing the infill development agenda. Citing SB 375 (Steinberg, 2008) and SB 226 (Simitian, 2011), McKeever acknowledged that the Legislature has made some progress with CEQA streamlining for infill development, but said that CEQA disincentives for infill development remain a problem. McKeever asked legislators to look carefully at land assembly and financing powers that are no longer available to local government after redevelopment's dissolution and help to develop replacement tools. He concluded by asking legislators not to consider affordable housing issues in isolation. Saying "this is a systems problem," McKeever said California needs to build neighbor-hoods and communities, not just housing or affordable housing. He asked legislators to consider the Strategic Growth Council as a potential partner in formulating a systemic approach to infill development.

Seth Merewitz*, a partner with the law firm Best, Best, and Krieger, spoke to the Committees about some guiding principles for a replacement tool for redevelopment:

- Local infrastructure investment is needed at the local level.
- Focus on local economic development for all communities. New tools should support not just "mega-projects," but also local-serving projects that are more useful for smaller, economically-challenged jurisdictions.
- Project-based incentives will stimulate more economic development.
- Foster public-private partnerships.
- Tax increment financing should be reformed to support focused statewide goals, but should offer local control and implementation.

Merewitz offered legislators three specific recommendations:

- Clarify that local governments can still use Polanco Act tools to pursue the cleanup of brownfields.
- Design an eminent domain mechanism to protect property owners while still allowing for local economic development efforts.
- Consider granting a CEQA exemption for repair and replacement of public works projects.

Senator Wolk posed a question to Michael Yarne about authorizing IFDs to finance affordable housing and asked Seth Merewitz for more details about his recommendations relating to eminent domain and the Polanco Act.

Affordable Housing Discussion

A panel discussion of affordable housing began with **Shamus Roller**, representing Housing California. Citing statistics that more than one quarter of Californian renters pay more than 50% of their income towards housing and that more than 133,000 Californians are homeless, Mr. Roller emphasized the need for a new funding source to meet these needs. In addition to meeting basic shelter needs, affordable housing improves educational outcomes, addresses critical mental health needs, reduces the usage of public services by the homeless, and assists with the remediation of brownfields. These additional benefits and services can add to costs but provide a much larger return on investment.

Ray Pearl, from the California Housing Consortium, testified that the affordable housing community is facing a perfect storm. The elimination of redevelopment has reduced affordable housing funding by more than $1 billion per year. At the same time, state bond funds have been exhausted and federal resources are declining as pressure grows to reduce the deficit. Mr. Pearl appreciates the dialogue on finding solutions to this crisis and believes that all good ideas should be on the table to create a permanent source of funding for affordable housing. Mr. Pearl added that affordable housing represents a perfect example of a public-private partnership. For this model to succeed, however, there has to be a public financing partner. The private market cannot meet the housing needs of lower-income households on its own.

Kate Klimow*, representing the Orange County Business Council, testified that the only predictable thing in California is population growth. Given the state's chronic underproduction of housing, we now face a housing problem at every level: from hourly to salary employees. The business community members of the Orange County Business Council (OCBC) consistently cite the lack of affordable housing near jobs as a major impediment to doing business in California. OCBC believes increasing housing supply is the key to addressing housing affordability. OCBC supports the requirement for local governments to zone sufficient land to accommodate all of their housing needs, but that is not enough. OCBC also supports the concept of a permanent source of revenue for affordable housing. The private market cannot meet the housing needs of lower-income groups even if all regulatory barriers are removed.

Cesar Diaz, from the State Building and Construction Trades Council of California, described how the members of the building trades have suffered disproportionately during this economic downturn. As a result, many of his members are now in need of affordable housing. Investing in the development of new housing will provide good-paying jobs which pay prevailing wages, a critical component to raise workers out of poverty. A dedicated funding source for affordable housing can be used as an economic development tool to accomplish these goals. For these reasons, the State Building and Construction Trades Council is supportive of the concept of a dedicated funding source for affordable housing.

Richard Lyon, representing the California Building Industry Association, testified that a number of charter cities are amending their charters to add blight reduction as a municipal affair and to authorize bonding. The funding streams that these cities may bond off of, however, remain unclear. Mr. Lyon said that the California Building Industry Association (CBIA) thinks that state involvement in tax-increment financing is still important. The state should look beyond blight, though. Tax-increment financing can be an important tool help implement regional growth plans.

Mr. Lyon also testified that the majority of affordable housing developments were supported by redevelopment funds. CBIA supports both SB 654 (Steinberg) and AB 1585 (J. Pérez) which allow cities and counties to keep the funding balances in the Low and Moderate Income Housing Funds of their former redevelopment agencies. CBIA also supports the notion of a dedicated and secure source of financing for affordable housing. Optimally, the expenditure of these funds should utilize a partnership of state and local governments with the private sector.

Lastly, Mr. Lyon stated that zoning land in anticipation of development is a non-monetary incentive that can attract developers and lower costs. Mr. Lyon, however, cautioned against programs that constrain growth or increase costs to homebuyers.

Leslye Corsiglia, from the City of San Jose/California Association of Local Housing Finance Agencies, testified that the overwhelming need for affordable housing still exists. A pending report from National Housing Conference will find that 34% of Californians earning between 50-120% of the area median income pay more than 50% of their income towards housing. In addition, studies have shown that it costs government two to three times more to have someone unhoused than to provide housing with supportive services. This is also a problem for the state's working households. Because so many families pay too much for housing, they have less money to spend on other household needs like health care and healthy food choices, which ultimately results in increased government spending.

Local governments cannot move forward to address this housing need alone. Local governments have lost the land assembly and financing tools associated with redevelopment and the ability to impose inclusionary zoning obligations on rental housing developments. Local governments need a permanent replacement for the lost redevelopment housing funds and for the exhausted state housing bond funds. They need SB 184 (Leno) to restore their authority to enact inclusionary zoning. And they need a reduced vote threshold to pass local housing bonds.

Ms. Corsiglia said that it is important that any new tools be easy to administer and focus on results. She also stated that local governments need flexibility to address their varied needs. San Jose has a housing supply problem as jobs increase. Rents in the area increased 11% last year. Other cities face a wave a vacant homes as a result of foreclosures. The federal entitlements programs offer a good model for administering housing funds. Under these programs local governments must submit to and obtain approval from the federal government for how they intend to address their particular needs.

Shiloh Ballard*, representing the Silicon Valley Leadership Group (SVLG), explained that SLVG members clearly understand the link between housing and the ability to attract and retain world-class employees. Each year, the CEOs of SVLG's membership companies rank the lack of housing as the number one impediment to doing business.

The state can send a strong signal in favor of increased housing production through policy. Housing element law and the 20% housing set aside in redevelopment law are excellent examples. Reducing regulations is also important. In some cases, the California Environmental Quality Act has been used to stifle development for non-environmental reasons.

Money for affordable housing is also important, however. SVLG is pleased to see that the long-discussed idea of creating a permanent source of funding for affordable housing programs will become a bill.

Public Comment

Starting around 12:25 p.m., **Senator DeSaulnier** invited public comment to supplement what the invited speakers had told the Committees' members.

The first speaker was **Rob Wiener**, representing the California Coalition for Rural Housing, who stated that the year housing died has finally arrived. The combination of deep cuts to federal programs, the loss of redevelopment, and the exhaustion of Proposition 1C bond funds is a perfect storm that means his members will be out of business in two years. No money. No homes. Mr. Wiener stated that the Legislature shares some responsibility for the loss of redevelopment and has a duty both to replace the lost housing funding from redevelopment and to replenish the exhausted bond funds with a permanent source that serves all areas, not just those that had redevelopment agencies.

Phil Kilbridge, representing Habitat for Humanity of Greater San Francisco and all 49 Habitat for Humanity affiliates in California, stated that another aspect of the perfect storm is the loss of housing talent from former redevelopment agencies. He further said that Habitat affiliates do self-help homeownership, have had zero foreclosures, and want to be part of the solution to finding a permanent and dedicated source of funding for affordable housing in California.

Michael Lane, representing the Nonprofit Housing Association of Northern California, argued that an on-going source or sources of revenue for affordable housing from outside the General Fund is imperative. A housing trust fund is long overdue in California, which is behind other states like Florida, Pennsylvania, and Ohio. The state of Washington has a document recording fee of $30 dedicated to affordable housing, and the real estate industry has not collapsed. Mr. Lane would like to see a bipartisan approach and believes there are opportunities to find common ground among all parties.

David Milton, representing the California Association of Realtors, expressed concern about direction the permanent source for affordable housing discussion is moving. He stated that it is not a source issue but a sources issue. A single fee associated with escrow is the last thing the industry can sustain at this time. The

Realtors will not be able to participate in any plan that makes it harder to close home sale transactions and address the foreclosure backlog. The Realtors do hope to work with others, however, on a plan that identifies multiple sources.

Robert Ogilvy, representing Public Health Law and Policy, brought up the public health perspective, which has taken a hit with the loss of redevelopment. The public health community has focused recently on combating chronic diseases like obesity and diabetes. The community made connections with redevelopment agencies, because they were working in the neighborhoods that had the worst health outcomes. Some redevelopment agencies were starting to build safer, healthier neighborhoods and had focused efforts on improving conditions for those with poor health outcomes.

Alecia Sanchez, representing the California Center for Public Health Advocacy, highlighted the new opportunity to put a finer point on the goal of public health as the Legislature considers the creation of new tools to replace redevelopment.

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A Briefing Paper for the Informational Hearing

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State Capitol, Room 4203

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Financing Affordable Housing and Local Economic Development: New Reality, New Opportunity

This briefing paper prepares the members of the Senate Governance and Finance Committee and the Senate Transportation and Housing Committee for their February 22, 2012 informational hearing on financing affordable housing and local economic development.

Until 2011, the Community Redevelopment Law authorized local officials to set-up redevelopment agencies, prepare and adopt redevelopment plans, and finance redevelopment activities. For six decades, local officials used the Community Redevelopment Law's provisions to construct tens of thousands of affordable housing units, hundreds of thousands of square feet of commercial and industrial space, and hundreds of public buildings inside redevelopment agencies' project areas.

On February 1, 2012, state law dissolved redevelopment agencies. Legislators, local government officials, affordable housing advocates, and other stakeholders now must grapple with numerous questions about post-redevelopment affordable housing and local economic development policy.

The February 22 informational hearing is an opportunity for legislators to engage their colleagues, invited witnesses, and members of the public in a discussion of the new reality and new opportunity confronting affordable housing and local economic development policymakers in California.

This briefing paper:

- Provides background on the general policy concerns raised by redevelopment agencies' dissolution.
- Identifies specific questions about affordable housing and local economic development policy that legislators may wish to consider during the February 22 hearing.
- Describes frequently mentioned alternative tools to promote affordable housing and local economic development.

Redevelopment Agencies' Dissolution

The Community Redevelopment Law allowed a city or county to establish a redevelopment area and capture all of the increase in property taxes generated within the area (referred to as "tax increment") over a period of decades. When it adopted a redevelopment plan for a project area and selected a base year, the agency "froze" the amount of property tax revenues that other local governments received from the property in that area. In future years, as the project area's assessed valuation grew above the frozen base, the resulting property tax revenues --- the property tax increment --- went to the redevelopment agency instead of going to the underlying local governments. When a redevelopment agency diverted property tax revenues from a school district, the State General Fund paid the difference. The Community Redevelopment Law required agencies to deposit 20 percent of tax increment into a Low and Moderate Income Housing Fund (L&M fund) to be used to increase, improve, and preserve the community's supply of low and moderate income housing available at an affordable housing cost.

Last year, citing a significant State General Fund deficit, Governor Brown's 2011-12 budget proposed eliminating redevelopment agencies and returning billions of dollars of property tax revenues to schools, cities, and counties to fund core services in future years. To implement the 2011-12 budget, the Legislature passed AB X1 26 (Blumenfield, 2011), which eliminated redevelopment agencies and established procedures for winding down the agencies, paying off enforceable obligations, and disposing of agency assets. AB X1 26 also included provisions allowing the host city or county of a dissolving redevelopment agency to retain the housing assets and functions previously performed by the agency, *except for* funds on deposit in the agency's L&M fund. If the host city or county chooses not to retain these assets and functions, a local housing authority or the Department of Housing and Community Development (HCD) assumes them. Two pending bills, SB 654 (Steinberg) and AB 1585 (Perez), would allow the city or county to retain the funds on deposit in the agency's L&M fund for future affordable housing activities.

Last year, the Legislature also passed AB X1 27 (Blumenfield, 2011), which allowed redevelopment agencies to avoid elimination if they made payments to schools in the current budget year and in future years. In December, the California Supreme Court's decision in *California Redevelopment Association v. Matosantos* upheld AB X1 26 and overturned AB X1 27. As a result, all of the state's roughly 400 redevelopment agencies dissolved on February 1, 2012, and successor agencies are now following the provisions enacted by AB X1 26.

Redevelopment Agencies' Past Activities

For more than 60 years, redevelopment agencies were a major feature on California's fiscal landscape. Consider the following facts from the 2009-10 fiscal year:

- There were 425 redevelopment agencies; 399 were active.
- All cities with populations over 250,000 had redevelopment agencies.
- 96% of cities with populations over 50,000 had redevelopment agencies.
- 81% of all cities had redevelopment agencies.
- 31 of the 58 counties had redevelopment agencies; 26 were active.

In 2009-10 redevelopment agencies received more than $5.4 billion in property tax increment revenues and reported nearly $30 billion in unmatured debt, $19 billion of which was in tax allocation bonds. Redevelopment officials used this financing to pay for projects throughout California that produced new construction, improved public infrastructure, rehabilitated existing buildings, increased the supply of affordable housing, and supported thousands of jobs.

Redevelopment agencies' L&M funds were long the single largest annual source of local funds dedicated to support affordable housing in California. Project area receipts deposited in L&M funds in fiscal year 2009-10 exceeded $1.4 billion statewide. (Deposits peaked at $1.5 billion in fiscal year 2008-09.)[1]

[1] Department of Housing and Community Development. *Annual Redevelopment Report on Housing Funds and Housing Activities During Fiscal Year 2009-10*, page 2, and *Annual Redevelopment Report on Housing Funds and Housing Activities During Fiscal Year 2008-09*, page 2.

As the following chart indicates, L&M funds supported a variety of different housing activities. [2]

Debt Service	21.5%	$ 396,025,527
SERAF State Payment	15.0%	$ 277,023,850
Transfers/Other Debt	10.1%	$ 186,809,866
Housing Construction	7.9%	$ 146,047,467
Housing Rehabilitation	5.9%	$ 107,897,520
Other (Housing Referrals, Services, etc.)	1.5%	$ 27,292,312
Planning & Administration	11.0%	$ 203,207,120
Preservation of At-Risk Units	0.1%	$ 2,231,958
Property Acquisition	13.2%	$ 242,776,212
Site Improvements (On-Off Site)	1.2%	$ 22,960,605
Subsidies & Covenants	12.3%	$ 226,961,647
Factory/Mobilehome/Park (Maintain Supply)	0.1%	$ 1,830,291
L&M Fund Total Expenditures:	**100.0%**	**$ 1,841,064,375**

As a general rule, private developers, both for-profit and non-profit, construct, own, and manage affordable housing development in California. Because rents affordable to lower-income households cannot support development costs, a subsidy is needed to make such developments financially feasible. Where agencies used L&M funds to support the construction or rehabilitation of affordable housing developments, agency contributions often represented the first and last dollars committed to a project. Agencies provided the first dollars in the form of land acquisition funds and predevelopment loans to developers. Such contributions get projects off the ground. Agencies provided the last dollars by filling the "gap" in needed development funds after the developer had tapped all other possible subsidy sources, such as low-income housing tax credits, state housing bond programs, and tax-exempt bonds. Without the final gap funds, the projects cannot leverage the other funding sources and do not go forward.

In fiscal year 2009-10, L&M fund expenditures contributed to making 17,550 homes affordable. This figure is down from the 19,818 units made affordable in fiscal year 2008-09.[3] Newly constructed, rehabilitated, and preserved units will remain affordable for 55 years.

		Units
Acquisitions (Covenants & Units)	3.3%	581
Factory/Mobilehome/Park (Maintain Supply)	6.4%	1,127
Minor Rehabilitation	18.4%	3,233
New Construction	38.3%	6,716
Other (Household Referrals, Services, etc.)	10.5%	1,849
Preservation/Replacement	2.3%	403
Subsidy (Downpayment, Rent, etc.)	8.9%	1,559
Substantial Rehabilitation	11.9%	2,082
L&M Fund Total Units & Households Assisted:	**100%**	**17,550**

[2] Department of Housing and Community Development. *Annual Redevelopment Report on Housing Funds and Housing Activities During Fiscal Year 2009-10,* page 5.

[3] Department of Housing and Community Development. *Annual Redevelopment Report on Housing Funds and Housing Activities During Fiscal Year 2009-10,* page 6.

With the elimination of redevelopment agencies, housing successor agencies will receive land assets and future loan repayments to use for future affordable housing development. If SB 654 or AB 1585 is enacted, these housing successor agencies will also be able to employ the existing balances in the L&M funds for affordable housing purposes. However, there will be no future tax increment deposits.

This loss of redevelopment funding for affordable housing comes at the same time as the state has exhausted its own project funding resources made available through the Proposition 46 and 1C housing bonds. Moreover, while federal resources for affordable housing, such as low-income housing tax credits, tax-exempt bonds, and the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH), Community Development Block Grant (CDBG) and the HOME Investment Partnerships Programs, continue to exist, it is very likely that these programs will see reductions as a result of current federal budget proposals and future deficit reduction needs. Some cities and counties in California have their own local funding source for housing programs, but these are rare and generally pale in comparison to the resources previously available to the redevelopment agency. Absent a replacement, the end result of the loss of redevelopment and the reduction in other resources will be a significant decrease in the production of affordable housing in California.

New Reality, New Opportunity - Questions for Legislators to Consider

Dissolving redevelopment agencies is a complex process and some local governments are struggling to manage the consequences of losing such a long-standing and widely-used program. SB 654 (Steinberg), SB 986 (Dutton), and AB 1585 (Perez) are examples of bills that respond to the immediate challenges confronting local government officials as they implement AB X1 26.

Resolving these implementation issues is important, but will not fully address local needs. Eliminating redevelopment agencies did not eliminate the necessity for communities throughout California to build more affordable housing, eliminate blight, foster business activity, clean up contaminated brownfields, and create jobs. Redevelopment agencies' dissolution presents public officials with an opportunity to reconsider assumptions about:

- Who should administer affordable housing and local economic development programs?
- What goals should affordable housing and local economic development programs achieve?
- How should government fund affordable housing and local economic development activities?

At the February 22 informational hearing, legislators may wish to ask:

Who should administer the programs?

Redevelopment agencies were primarily created by cities, although some counties also used the Community Redevelopment Act's powers. This often led to competition among local taxing entities for property tax and sales tax revenues. Legislators may wish to consider whether local economic development tools can be structured to encourage a more regional collaboration among local governments. For example, could local economic development powers be authorized to joint powers authorities created by all of the cities and counties within a market area?

What is state government's proper role in local economic development? Should the state be involved in local economic development if it does not provide funding?

Administering housing funds at the state level allows for greater competition among projects, ensuring that scarce funds go to projects that best meet desired outcomes. Administering funds at the local government level gives cities and counties more certainty and local control. Who should best administer affordable housing funds? Or should there be a combination of approaches? To the extent local governments control housing funds, should the Legislature enact rules for expenditure of those funds to prevent the types of abuses that occurred under redevelopment, in which some agencies spent exorbitant amounts on planning and administration, took years to spend funds, or failed to construct many homes?

What goals should the programs achieve?

The Community Redevelopment Law required redevelopment agencies to focus their activities on eliminating conditions of physical and economic blight by financing projects that increased property values in blighted areas. Should eliminating blight and increasing property values still be the only goals of local economic development policy? If not, what other goals should be considered:

- Job creation?
- Infill/transit-oriented development patterns?
- Community health improvements?
- Greenhouse gas emissions reductions?

Should state law specifically define goals for local economic development programs or should communities be free to define their own priorities?

Should state law authorize local economic development tools designed for specific needs, such as military base reuse or development after natural disasters?

What are the greatest affordable housing needs? Should funds be targeted to these greatest needs or spread among programs that serve a variety of needs?

How will public officials determine whether affordable housing and local economic development programs are properly targeted and achieving the intended goals?

Should state law require affordable housing and local economic development programs to meet performance measurement requirements?

How should government pay for the programs?

Will any of the additional property tax revenues allocated to cities and counties because of redevelopment agencies' elimination be used to pay for economic development activities?

As a result of voter-approved amendments to the California Constitution, the State General Fund contributed billions of dollars to fund redevelopment agencies' activities in recent years. Should the state continue to provide funding for local economic development efforts? If so, how should state funding be structured?

Do local officials support a constitutional amendment to reduce the voter-approval threshold from 2/3-voter approval to 55% voter approval for local general obligation bonds? For local limited obligation bonds? For local special taxes?

Besides subsidies, what else can local officials do to attract and retain private investment? Do expedited development decisions and permit streamlining help investors? Do lower impact fees help investors? Do faster environmental reviews help investors? Do project labor agreements help local investors?

To the extent the Legislature wishes to enhance funding for future affordable housing development, should the money come from:

- A new, dedicated revenue source?
- A general obligation housing bond?
- Greater ability for local governments to raise their own revenue?

Appendix

An Inventory of Potential Affordable Housing and Local Economic Development Tools.

To help identify potential tools to support affordable housing and local economic development activities, this appendix briefly describes the most frequently discussed potential tools and identifies related bills pending in the Legislature.

Property Tax Increment. Redevelopment agencies' elimination does not preclude local governments from using other forms of tax increment financing. These alternative tax increment-based tools could either build on existing statutes, such as the authority to create infrastructure financing districts, or could take an entirely new approach, such as proposals for the Legislature to annually allocate limited shares of tax increment to qualified projects.

- **Infrastructure Financing Districts.** Cities and counties can create Infrastructure Financing Districts (IFDs) and issue bonds to pay for community scale public works: highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks, and solid waste facilities. To repay the bonds, IFDs divert property tax increment revenues from other local governments for 30 years. However, IFDs can't divert property tax increment revenues from schools. Every local agency that will contribute its property tax increment revenue to the IFD must approve the plan. Once the other local officials approve, the city or county must still get the voters' approval. When local officials use IFDs to capture property tax increment revenues, state law requires 2/3-voter approval.

  Unlike redevelopment, the property in an IFD doesn't have to be blighted, but an IFD can't overlap a redevelopment project area. The Legislature has declared, but not required, that IFDs should include substantially undeveloped areas.

  Last year, SB 310 (Hancock) allowed cities or counties to support transit priority projects by creating IFDs. Pending legislation to make it easier for local governments to use infrastructure financing districts includes SB 214 (Wolk, 2011), AB 485 (Ma, 2011) and AB 910 (Torres, 2011).

- **Limited state allocation of tax increment.** Some observers suggest that many concerns about the way tax increment financing, as used by redevelopment agencies, affected the State General Fund could be addressed by giving the state the authority to allocate limited amount of tax increment financing to qualifying projects. Senate Bill 934 (Lowenthal, 2007) provides an example of how such a program might be structured.

General obligation bonds. Counties, cities, school districts, community college districts, and some special districts can issue general obligation (GO) bonds, secured by ad valorem property tax revenues, with 2/3-voter approval, with two exceptions:

- General obligation bonds to repair, reconstruct, or replace structurally unsafe schools require majority-voter approval, and

- General obligation bonds to build, rehabilitate, or replace schools require 55% voter approval.

Limited obligation bonds. To pay for public works, cities, counties, special districts, and school districts can issue limited obligation bonds backed only by the pledge of specified revenues. Local officials must pledge a specified amount of revenue from an identified source of revenue. These revenues may include property tax revenues or local sales tax revenues. The local agency's general fund, general credit, and taxing powers are not liable for these limited obligation bonds. Investors who buy these limited obligation bonds can't force a local agency to raise any other taxes to repay the bonds. Limited obligation bonds require 2/3-voter approval.

Revenue Bonds. Several state laws allow local governments to issue revenue bonds. Revenue bonds are backed by specific dedicated revenues, which are often generated by a project funded with bond proceeds. Revenue bonds are designed to be self-supporting through user fees or other special earmarked receipts; the general taxing powers of the jurisdiction are not pledged. The debt created through the issuance of revenue bonds is to be repaid by the earnings from the operations of a revenue-producing enterprise (an enterprise revenue bond), from special taxes (a special revenue bond), or from contract leases or rental agreements (a lease revenue bond).

Additionally, certain types of non-governmental borrowers can take advantage of tax-exempt financing through "conduit revenue bonds," which are issued by many types of governmental agencies, including state financing authorities, chartered cities, counties, joint powers authorities, and local housing and industrial development authorities. These bonds may be issued for various purposes including economic development, educational and health facilities, and multi-family housing. The issuing agency loans the funds obtained from the financing to a non-governmental borrower who builds and operates the project. A conduit revenue bond is payable solely from loan payments received from the non-governmental party, so the governmental issuer normally has no liability for debt service on the bonds. A private firm's use of a governmental agency's authority to issue tax-exempt debt is conditioned on public benefit being provided by the project that is financed.

Community Facilities Districts. The Mello-Roos Community Facilities Act allows counties, cities, special districts, and school districts to levy special taxes (parcel taxes) to finance a wide variety of public works, including parks, recreation centers, schools, libraries, child care facilities, and utility infrastructure. A Mello-Roos Community Facilities District (CFD) issues bonds against these special taxes to finance the public works projects. Like all special taxes, Mello-Roos Act special taxes require 2/3-voter approval. If there are fewer than 12 registered voters, the affected landowners vote.

In addition to financing public works, CFDs can pay for the following improvements on privately owned buildings or real property:

- Work deemed necessary to bring buildings or real property into compliance with seismic safety standards and regulations.
- The repair and abatement of damage to buildings caused by soil deterioration.
- The removal or remediation of any hazardous substance on real or other tangible property.

In addition to financing public or governmental capital facilities, Mello-Roos Act special taxes also can fund a limited list of public services: police services, fire protection, recreation programs, library services, museum operations, park maintenance, flood protection, hazardous waste cleanup, street and road maintenance, lighting of parks, parkways, streets, roads, and open space, plowing and removal of snow, and graffiti management and removal.

Assessment districts. Several state laws allow local officials to charge benefit assessments to property owners to pay for public works and public services. Proposition 218 (1996) requires owners of real property to approve benefit assessments in a weighted ballot election; property owners vote in proportion to their proposed assessments, which reflect how much their property benefits from the proposed public works or public services. The courts have said that assessments on businesses, as opposed to real property, are not subject to Proposition 218's provisions.

Business improvement districts are one model for how local governments use assessment financing to pay for projects to attract and retain businesses. For example:

- The Parking and Business Improvement Area Law of 1989 allows a city council or county board of supervisors to set up an "improvement area" and levy assessments on businesses to pay for several types of physical improvements or activities within the area.
- The Property and Business Improvement District Law of 1994 allows property owners to petition a city or county to set up an "improvement district" and levy assessments on property owners to pay for promotional activities and physical improvements. Local officials may also use the 1994 Law to assess business owners.
- The Multifamily Improvement District Law allows a city council to set up an "improvement district" and levy both property assessments and business assessments to pay for several types of activities and improvements in multi-family neighborhoods.

SB 949 (Vargas, 2012) builds upon the business improvement district model by authorizing a city or county to establish a "community benefit district" to provide assessment financing for specified improvements, maintenance, or activities in commercial, retail, mixed-use, industrial, or residential districts or neighborhoods.

Public-private partnerships. State law allows local governments to solicit proposals and enter into agreements with private entities for the study, planning, design, financing, construction, maintenance, rebuilding, improvement, repair, or operation by private entities of specific types of fee-producing infrastructure. SB 475 (Wright, 2011) proposes to revise these statutes to make it easier for local governments to complete public infrastructure projects using public-private infrastructure agreements.

Leveraging publicly-owned real estate. Some observers suggest that public officials can leverage publicly-owned land, through the use of ground leases or other similar lease structures, to provide support to affordable housing or local economic development projects.

Tax credits. Current law allows tax credits designed to provide incentives for taxpayers that incur certain expenses, such as child adoption, or to influence behavior, including business practices and decisions. California has two credit primarily directed at increasing employment:

- The Jobs Tax credit, equal to $3,000 per full time employee hired for an employer that employs fewer than 20 employees (AB X3 15 (Krekorian)/SB X3 15 (Calderon), 2009).
- Geographically Targeted Economic Development Area tax credits, such as enterprise zones. Employers inside of one of California's 42 enterprise zones may claim a tax credit based on the wages paid to employees meeting specified criteria or living in a designated neighborhood. The credit is equal to 50% of wages in the first year, diminishing 10% per year until exhausted after the fifth year, up to 150% of the minimum wage.

Federal tax credits can also play an important role in local economic development activities. For example, the Congress established the New Markets Tax Credit Program (NMTC Program) to spur new or increased investments into operating businesses and real estate projects located in low-income communities. To attract investment capital to low-income communities the NMTC program permits individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period.

New local revenue sources. Under the constitutional municipal affairs doctrine, charter cities can levy taxes which are not preempted by the state or federal governments. In contrast to a charter city, a general law city can impose those taxes allowed by state statutes. However, the Government Code allows all general law cities to levy any tax which may be levied by any charter city unless a different general law limits or prohibits such a tax. This blanket authority means that a general law city's authority to tax is similar, but not identical, to a charter city's authority. Counties can levy only the local taxes allowed by state statutes. Unlike charter cities, the charter counties don't have constitutional authority to levy additional taxes.

Proposition 13 (1978), Proposition 62 (1986), and Proposition 218 (1996) require voter approval for new and increased local taxes. All local taxes are either general taxes, which need majority-voter approval, or special taxes, which must receive 2/3 voter approval.

To pay for affordable housing and economic development programs, some observers suggest that the legislature should expand the authority for cities and counties to impose taxes. Subject to the Constitution's voter-approval requirements, local governments could be allowed to levy an income tax, excise taxes, or additional sales taxes. SB 653 (Steinberg, 2011) is an example of legislation to expand local governments' taxing authority.

Property tax rebates. State law allows counties and cities to establish a "capital investment incentive program" and pay a "capital investment incentive amount" for 15 years to attract qualified manufacturing facilities. Under a capital investment incentive program, a proponent pays property taxes on no less than the first $150 million of a qualified facility's value and then receives a property tax rebate for the taxes paid on the facility's value above that amount.

EB-5 visa program. Under the federal EB-5 immigrant investor visa program, permanent resident status is available to investors who have invested – or are actively in the process of investing – at least $1,000,000 into a new commercial enterprise that they have established. A new commercial enterprise includes: the creation of an original business, the purchase of an existing business and restructuring or reorganizing the business to the extent that a new commercial enterprise results, or expanding upon an existing business. An applicant seeking status as an immigrant investor must demonstrate that his/her investment will benefit the United States economy and create full-time employment for no fewer than ten qualified individuals, or maintain the number of existing employees in a "troubled business." If the investment in a new commercial enterprise is made in a targeted employment area, the required investment is decreased to $500,000. A targeted employment area is either a "high unemployment area" that has experienced an unemployment rate of at least 150 percent of the national average rate or a "rural area."

Non-fiscal tools. Subsidies and other fiscal incentives aren't the only tools that public officials can use to promote affordable housing and local economic development. Potential non-fiscal tools include:

- Density bonuses.
- Inclusionary zoning requirements.
- Expedited environmental review.
- Permit streamlining.

WRITTEN MATERIALS RECEIVED BY THE COMMITTEES

Financing Affordable Housing and Local Economic Development:
New Reality, New Opportunity
Wednesday, February 22, 2012

Materials submitted by:

Senator Darrell Steinberg, State Senate President pro Tempore

Marianne O'Malley, Managing Principal Analyst, California Legislative Analyst's Office

The Honorable Bill Bogaard, Mayor, City of Pasadena

Michael Yarne, Development Advisor San Francisco Mayor's Office of Economic and Workforce Development

Seth Merewitz, Partner, Best, Best, and Krieger

Kate Klimow, Vice President of Government Affairs, Orange County Business Council

Shiloh Ballard, Vice President, Housing & Community Development, Silicon Valley Leadership Group

Remarks of Senate President Pro Tem Darrell Steinberg
JOINT HEARING OF THE SENATE COMMITTEES ON GOVERNANCE AND FINANCE AND TRANSPORTATION AND HOUSING
"Financing Affordable Housing and Local Economic Development: New Reality, New Opportunity"
Wednesday, February 22, 2012
9:30 AM Room 4203

Thank you Chairs Wolk and DeSaulnier for asking me to be with you today to begin our work in filling the void in economic development and housing policy in California resulting from the state Supreme court's invalidation of AB 27x late last year. In the past year, the future of redevelopment was debated at the highest levels of our legislative, executive and judicial branches of government. What have to accept what happened, and move ahead. We can't go back. We face a big challenge, but also a once-in-a-lifetime opportunity to shape the future development of our state in a fundamental and enduring way.

Vision

We should start with the big picture, and ask ourselves what is our vision for local economic development and housing policy for the 21st century? We are more likely to be successful if we can reach a consensus on what it is that we hope to achieve.

The redevelopment program enacted 60 years ago started out with the fairly limited objective of eliminating physical blight in our communities. This was motivated more by public health and safety concerns than development interests, which was why the Community Redevelopment Law was codified in the Health and Safety Code.

Over time, local agencies found redevelopment to be a powerful tool for achieving a variety of real estate development purposes beyond mere blight remediation. But the system of tax increment financing established in the 1950s - while appropriate for an era when local governments set their own property tax rates - led in the post-Prop 13 world to an unhealthy competition for limited tax revenues - competition between cities and counties and the schools, and between individual cities themselves.

As we move ahead, we should encourage cooperation, not competition, between local agencies and the state in furtherance of sustainable economic development. Our public investments should advance statewide goals with respect to transportation, housing and the environment by encouraging infill and transit-oriented development where residential, commercial and retail uses are within close proximity to one another.

Affordable housing must be a priority.

The new financing tools we develop can be an important component in realizing the sustainable communities strategies authorized in SB 375 and now under development by the municipal planning organizations throughout the state.

We also should move beyond the narrow, real estate- centered conception of economic development that characterized the old redevelopment program. Many of the jobs created by redevelopment program were low-skill, low-wage retail jobs that may have a role in our economy, but do necessarily warrant an investment of scarce public resources. We can do better than that.

The key to our future prosperity will be how well we facilitate the creation of high-skill, high- wage jobs in California.

We need to recognize that our investments in the human capital of our workforce are just as important as our investments in physical capital of our infrastructure.

We can work with our schools and community colleges and industry to advance career education and credentialing programs.

We can work with labor to ensure that the jobs created with our public dollars pay living wages with decent benefits, where workers are free to exercise their right to organize and collectively bargain.

We can do more to help our workers and businesses compete in the global economy of the 21st century.

I believe that the new policies we enact should retain the essential feature of local control that characterized redevelopment historically. The Legislature can and will do all it can to establish clear programmatic guidelines and performance measurements in statute, but the real work will be done by local officials making decisions for the benefit of their communities. We don't want to micromanage local decisions, but we do want to create a framework of checks and balances that makes it more likely that local officials will make good decisions.

One of those checks and balances should be an inclusive governance structure that brings the cities and the counties together as equal partners in deciding which projects are most worthy of public subsidies and support. There also should be a role for the schools and community colleges in developing the workforce and career educational aspects of the program.

Another check and balance will be to professionalize the economic analysis of proposed development deals towards the goal of maximizing the return to the public sector on public investments. Too often in the past redevelopment projects conferred large windfalls on private developers but little or no public benefit. We have to negotiate better deals for the public, and I will discuss one idea for doing this in a moment.

Financing Tools

Now for the $64,000 question – How are we going to pay for all this stuff?

I recently had the opportunity in my hometown paper to put forth the proposal that we retain for local economic development purposes the assets of the redevelopment agencies – the cash and liquid investments, the leases, the real property and personal property, the parking lots and office buildings, etc. – which are scheduled to be liquidated under the AB 26x dissolution legislation.

We won't have better idea of how much money we are talking about until the county auditor-controllers complete their audits of RDA assets and liabilities in July. Even then we won't have a complete picture of RDA assets as it will take up to another year for the state Controller to identify and unwind all of the illegal transfers of assets of redevelopment agency assets that have occurred since the beginning of 2011, which the early evidence indicates has been a big problem in some communities.

Nonetheless, we know that the RDA assets are substantial. For example, on January 31st the Local Agency Investment Fund in the state treasurer's office, which invests cash for local agencies, distributed $2.2 billion to the successor agencies, since the RDAs were being dissolved the next day and thus had to liquidate their accounts. There are additional amounts of cash reserves invested in the county pools and elsewhere. The real property assets likely are to be in the billions, as well.

I am proposing in new legislation that the cities and counties retain these assets in a trust for future economic development and housing projects. The legislation will require the development of Long Range Asset Management Plans at the local level to maximize the long-term value of the assets and deploy them for their highest and best use to the community. The plan will prohibit the disposal of assets until the plans are approved and will require fair market valuations, conflict of interest prohibitions and competitive bidding.

Another category of former RDA assets are the funds on deposit in the Low and Moderate Income Housing Funds throughout the state. Collectively, the unencumbered balances in these funds total about $1.4 billion. A couple of weeks ago, the Senate approved my bill, SB 654, to retain these funds for the purpose of affordable housing.

In the absence of this legislation, these funds will be distributed as property tax revenue to local agencies late this spring or early this summer, and the state general funds indirectly will reap nearly 60% of these funds through reduced Prop 98 expenditures. I have asked the Speaker to set this bill for hearing in the Assembly ASAP.

In addition to the RDA assets, my office has begun discussions with the public pension funds in California to see how we can facilitate investments of their resources in our communities. CalPERS and CalSTRS independently have pledged more than $1 billion resources in the past year to public infrastructure investments.

The state pension funds are hoping to replicate the success of the Australian pension funds model of public infrastructure investments. Most public pension investments have been in transportation and utility infrastructure, which can guarantee a rate of return. I want to work with our pension funds to see if there is a way to clear out barriers to investment and find ways through the tax code, and through the granting of development rights, to make public infrastructure investments an attractive option for the state and local public pension funds.

I also think that the analysis of potential investment undertaken by the pension funds can serve to enhance local officials' understanding of the business side of the investments decisions they make, which should produce a public benefit.

If we can direct capital into our communities while helping our pension funds achieve a healthy rate of return, that is a twofer, as far as I am concerned. Then we are truly legislative multi-taskers. The legislation I am introducing this week will advance this objective.

This is an oversight hearing, I know, and we will have the opportunity to hear our policy bills in a month or so, so let me not get ahead of myself. But I also will propose some additional local taxing and bonding authority.

Let me conclude by saying that if we marshal our resources, we can create a Marshall Plan of sorts for the continuing economic development and affordable housing needs of our communities. The Marshall Plan is a good analogy for the task before us – not just because it connotes big things and big money, but also because it conveys the generosity of spirit and commitment to joint problem solving that I hope will characterize our relationship with the cities and counties going forward.

Thank you.

LAO
70 YEARS OF SERVICE

February 22, 2012

Local Economic Development Tools

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Transportation and Housing Committee and
Senate Governance and Finance Committee
Hons. Mark DeSaulnier and Lois Wolk, Chairs

LAO
70 YEARS OF SERVICE

Uses of Redevelopment Resources

- ☑ Attracting New Business
- ☑ Retaining Businesses
- ☑ Subsidizing Development of Affordable Housing
- ☑ Improving Community Infrastructure
- ☑ Community Marketing and Special Events
- ☑ Providing Community Amenities and Downtown Beautification
- ☑ Subsidizing the Arts, Businesses, and Sports
- ☑ Offsetting Local General Fund Expenditures

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What Research Says About Local Efforts to Promote Economic Development

- ☑ Little consensus about what works.
- ☑ Significant concern that local government subsidies can be unnecessary, unproductive, expensive relative to the number of jobs generated, and that they can yield benefits to one local government at the expense of neighboring communities.
- ☑ Three policy areas where local action might strengthen the local economy.
  - ***Quality Educational Programs***—improves the productivity of lower-skilled workers, develops medium-skilled workers, and produces (or attracts) higher-skilled workers.
  - ***Major Transportation Infrastructure***—facilitates the movement of goods, supplies, and people.
  - ***Clear and Effective Laws and Regulations***—reduces costs to businesses related to delays, uncertainty, and compliance.

LAO 70 YEARS OF SERVICE

Observations About Developing New Financing Tools

- ☑ ***Local Agencies Have Some Financing Tools.*** These include Business Improvement Districts, Infrastructure Improvement Districts, property tax overrides, sales taxes, benefit assessments, and Mello-Roos districts.

- ☑ ***Taking a Broad, Neutral Approach to Promoting Economic Development Probably Is Best.*** Little evidence that business-entity-specific subsidies promote overall economic development.

- ☑ ***Focusing on Financing Tools Can Overshadow the Benefits of Regulatory Reform.*** It may be possible for cities and counties to achieve some of the goals promoted under redevelopment—such as infill urban development, affordable housing, and downtown revitalization—by modifying existing land use or other policies.

- ☑ ***Need for Broad Participation in Economic Development Activities.*** California cities typically do not administer programs related to education and workforce development and most major infrastructure developments are regional in nature. Effective economic development programs, therefore, may require partnerships between multiple public entities.

- ☑ ***Local Governments' Fiscal Incentives Can Work at Cross-Purposes With Their Economic Development Goals.*** While economic development requires a mix of types of developments, cities and counties face significant fiscal incentives to approve major sales tax generating developments.

- ☑ ***Redevelopment Oversight Boards Likely Will Have Valuable Perspectives.*** These boards are reviewing the spending decisions of redevelopment agencies and will make decisions regarding the continuation of certain economic development projects throughout the state.

Mayor Bill Bogaard
Remarks to Joint Hearing of the Senate Governance and Finance and Transportation and Housing Committees
February 22, 2012

Honorable Chairs Senator Wolk, Senator DeSaulnier, and Senators:

I am Bill Bogaard, Mayor of the City of Pasadena, and First Vice President of the League of California Cities. Thank you for the opportunity to speak today.

Last February, when I testified before the Senate Government and Finance Committee on the proposal to eliminate redevelopment, there was a comment in the committee's analysis that said: *Redevelopment has literally changed the way California looks; mostly for the better."*

As one who has seen my city blossom over the years, I couldn't have agreed more with that remark. It is difficult for me to imagine what Pasadena would look like if not for that tool. Redevelopment provided the momentum for turning downtown Pasadena into a showpiece that we are all proud of today.

But now the vibrant tool we knew is gone. On February 1, all redevelopment agencies were eliminated.

So where we go from here? What's left? What are the prospects now for community revitalization and sustainable development? For affordable housing? For brownfield clean up? For repairing infrastructure? For retaining and attracting businesses and jobs?

Right now, none of us know the answer to those questions. But we have to accept that reality we will face a major decline in resources.

Still, California's 482 cities and our 31.5 million residents are resilient. We are innovative. The vibrant engine of local democracy will not stop. We will move forward and face our challenges.

This afternoon, representatives from cities around the state will be meeting at the League offices, as part of a task force that I am chairing, to examine our options. Here are several things we will be discussing:

- **<u>Challenges with redevelopment dissolution</u>.** There are many outstanding, legal, technical and policy issues raised by AB X1 26, the redevelopment dissolution bill. Now that this measure is law, it is in everyone's interest to reduce confusion wherever possible. Focusing on comprehensive and necessary clean up should be the first order of business.

<u>Other things we will be looking at are:</u>

- What can cities do themselves?
- What features of the previous redevelopment tool should we preserve?
- Can infrastructure financing districts become a useful tool?
- We will also review a legislative concept mentioned in your analysis that the League sponsored in 2007 with Senator Lowenthal, which would have established tax increment funding for large, regional projects.

In your work, I also suggest you consider several important factors:

- **<u>There will be no easy solutions to replace the tool we lost</u>**. One of the legislative preconditions for forming a redevelopment agency was a finding that the *<u>conditions could not be expected to be reversed by private enterprise or governmental action or the local regulatory police power.</u>* These are difficult areas by definition. The private sector is simply not going to carry the burden of assembling parcels and cleaning up blighted, abandoned and contaminated properties. They can take their investment dollars elsewhere. With some properties, government needs to "set the table" before private businesses will invest.

- **<u>Constitutional limitations narrow our choices</u>**: The 2006 state infrastructure bond package approved by voters was a boost to the state's infrastructure challenges. Yet none of those measures could have been adopted at the local level because of two-thirds vote threshold. Voter approval thresholds should not be different for state and local government. This simply hampers our ability to fish for ourselves.

- **<u>Community concerns must be heard and respected</u>**: Recently, there has been an increasing focus on governmental transparency. But when the people speak, their government is obliged to listen. I say this as a word of caution; because some may think imposing an arbitrary requirement on local government solves a problem. Resist that path. We do not need more mandates and restrictions. We need continued flexibility to resolve unique local problems and find the balance point that moves our community forward.

- **<u>Focus on the resources problem, the rest we can take care of ourselves:</u>** With Pasadena, redevelopment provided both the tools **<u>and</u>** resources needed to solve problems and implement the community's vision.

  To the business community it meant we could upgrade infrastructure and set the table for development. To our residents it meant we could increase development intensity while still addressing concerns with traffic, parking, historic preservation, affordable housing and other issues…without sacrificing existing services and quality of life.

So please avoid mandates and focus on resources.

--Resources and tools for revitalizing existing communities and upgrading and repairing urban infrastructure.

--Resources to develop affordable housing for lower income residents.

The past is behind us. We have no choice but to go forward. Cities and the League look forward to working with you in continued dialogue and partnership as we blaze a new trail for the people of California.

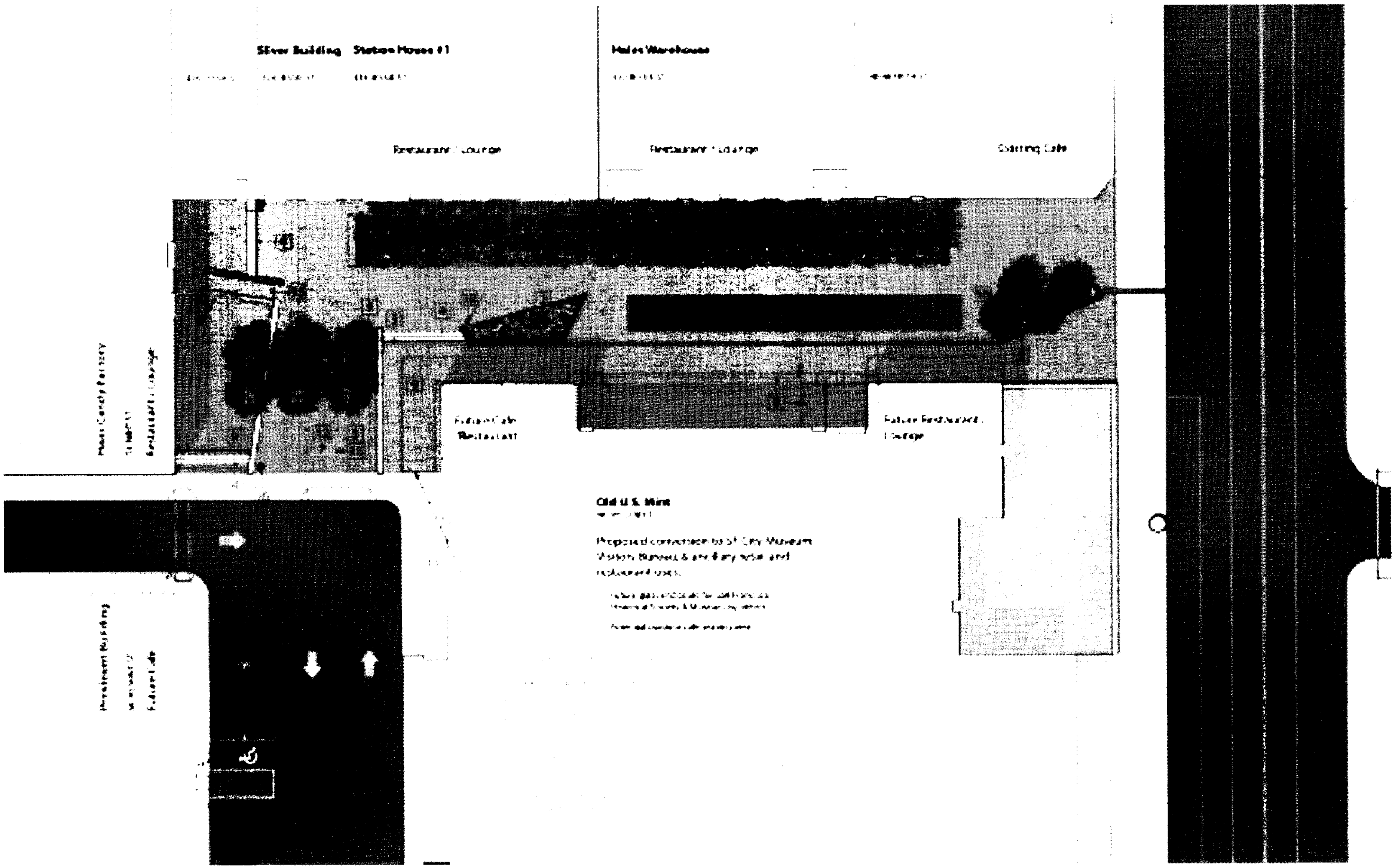
Thank you.

The Post-Redevelopment Tool-shed:

- Development Agreements (DAs)
- Infrastructure Financing Districts (IFDs)
- Mello-Roos Community Facility Districts (CFDs)
- Business Improvement Districts (BIDs)
- Air Rights/Transferable Development Rights
- Transfer Fees

Mint Plaza: before & after

Mint Plaza: site plan



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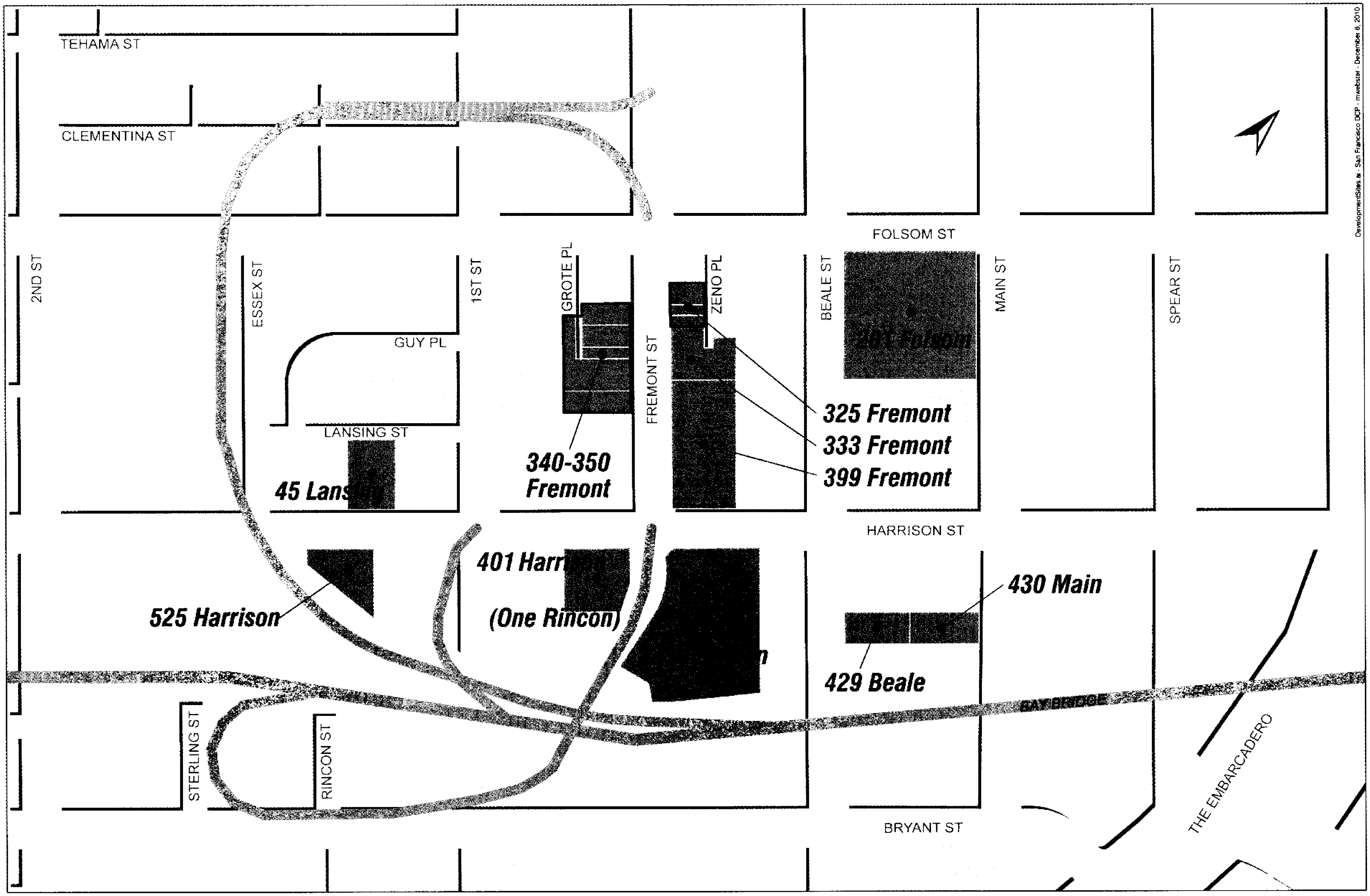
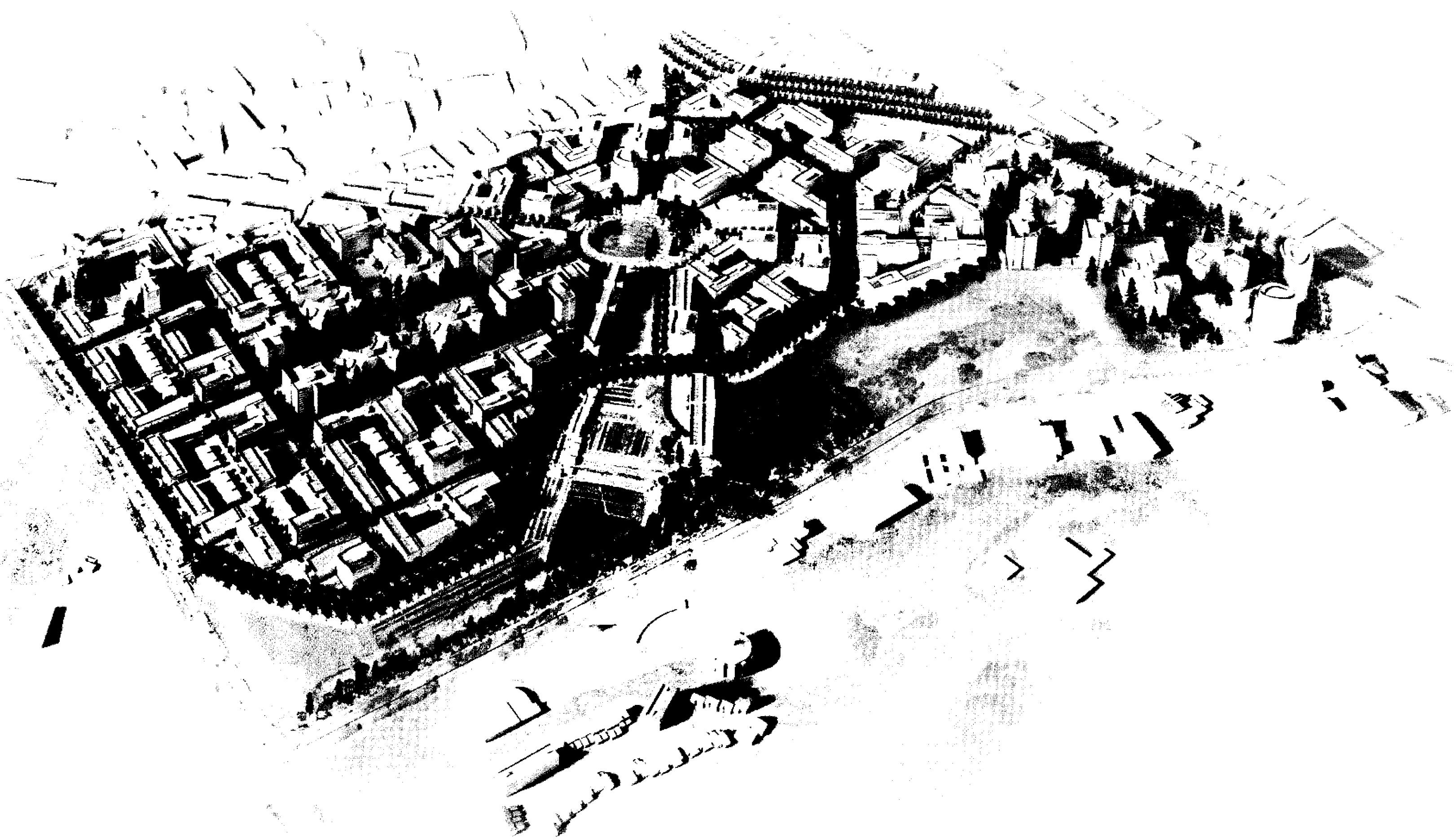


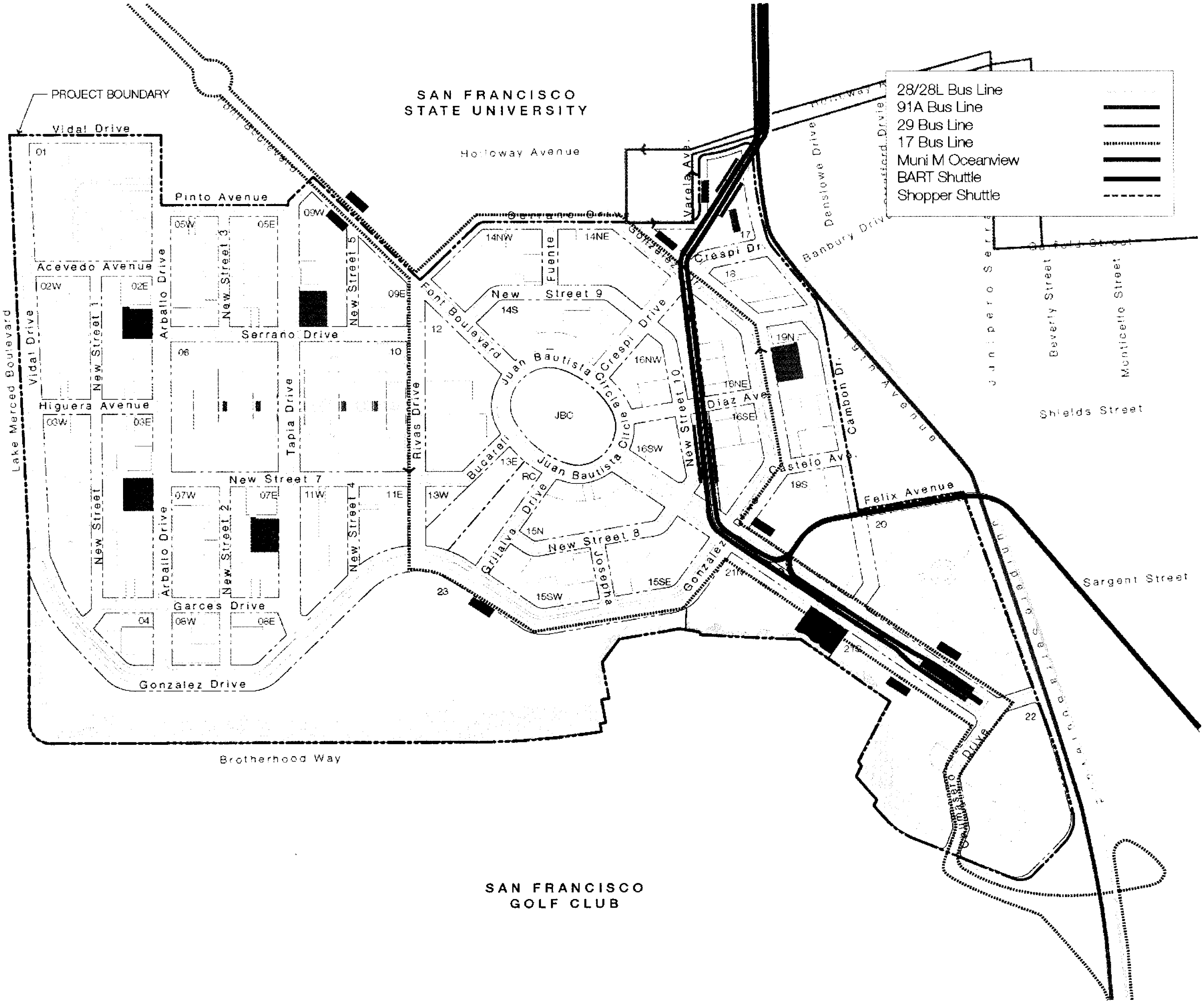
Proposed Amended Boundaries of City and County of San Francisco Infrastructure Financing District No. 1 (Rincon Hill area), City and County of San Francisco. State of California.

Filed in the office of the Clerk of the Board of Supervisors of the City and County of San Francisco this ____ day of ________________________, 201____.

____
Clerk of the Board of Supervisors

Parkmerced: DA + IFD?




28/28L Bus Line
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BART Shuttle
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STATE UNIVERSITY
SAN FRANCISCO
GOLF CLUB
PROJECT BOUNDARY
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Brotherhood Way
Lake Merced Boulevard
Vidal Drive
Pinto Avenue
Acevedo Avenue
Higuera Avenue
Arballo Drive
Serrano Drive
Tapia Drive
Rivas Drive
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New Street 3
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New Street 5
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New Street 8
New Street 9
New Street 10
Garces Drive
Gonzalez Drive
Font Boulevard
Juan Bautista Circle
Crespi Drive
Crespi Dr.
Bucareli
Grijalva Drive
Josepha
Fuente
Diaz Ave
Castelo Ave.
Cambon Dr.
Felix Avenue
Varela Ave.
Banbury Drive
Denslowe Drive
Beverly Street
Monticello Street
Shields Street
Sargent Street
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Indian Wells
(760) 568-2611
Irvine
(949) 263-2600
Ontario
(909) 989-8584
Riverside
(951) 686-1450

BBK

BEST BEST & KRIEGER

ATTORNEYS AT LAW

300 South Grand Avenue, 25th Floor, Los Angeles, CA 90071
Phone: (213) 617-8100 | Fax: (213) 617-7480 | www.bbklaw.com

Sacramento
(916) 325-4000
San Diego
(619) 525-1300
Walnut Creek
(925) 977-3300
Washington, DC
(202) 785-0600

Seth Merewitz
(213) 787-2567
seth.merewitz@bbklaw.com

February 22, 2012

Prepared Remarks for the
Joint Hearing of the Senate Governance and Finance Committee
and the Senate Transportation and Housing Committee

Good morning Senators Wolk and DeSaulnier.

My name is Seth Merewitz. I'm a partner at the law firm, Best Best & Krieger LLP.

For almost 15 years, I have worked on issues affecting local governments, representing public agencies and private clients across California. I have been involved in urban redevelopment projects including commercial, industrial and affordable housing projects, as well as residential subdivisions and master planned communities.

My practice now involves issues for both "endangered species" (builders) as well as "extinct species" (redevelopment agencies).

As you know, the State Supreme Court's decision in *California Redevelopment Association vs. Matosantos,* upholding AB 26 and invalidating AB 27 effectively ended tax increment based redevelopment in California. Since then many of us have been working to understand how we can finance much needed infrastructure, affordable housing, public amenities and catalyst projects at the local level.

In January 2011, Governor Brown committed to provide a "replacement tool" in connection with his desire to end redevelopment in California. I hope that your committees can produce some meaningful tools that communities can utilize to invest in needed projects and draw additional private investment.

I have provided the Committee with several articles that have attempted to start a discussion about certain opportunities that may exist in the wake of the *Matosantos* decision. These articles have laid out ideas for using existing tools in combination with new opportunities and potential new tools that may be developed either at the State or local level.[1]

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[1] "Post-Redevelopment: What's next for Local Economic Development," Seth Merewitz, PublicCEO, January 19, 2012; "Sustainable Economic Development Policy Overview," U.C. Berkeley, Institute of Urban and Regional Development, January, 2012; and "Viewpoint: Tools can help cities cope after redevelopment," Bill Fulton, Sacramento Bee, February 4, 2012.

Let me use the concepts discussed in these articles as a jumping off point to discuss what I think are the critical elements for new and revised parts of that hoped for "replacement tool" for local economic development:

1. Infrastructure Investment is Needed at the Local Level.

In many communities, the basic local-serving infrastructure, such as roads, water and wastewater systems, is inadequate to serve modern development. This infrastructure suffers from insufficient capacity, deferred maintenance, and needed equipment replacement. Public investment in local infrastructure will strengthen the ability to secure more private investment in our urban areas.

Updated local-serving infrastructure will also make urban development less risky and at the same time promote the goals of AB 32 and SB 375. Infill development needs help in most areas if it is going to be successful as there are higher costs and greater risks when operating in a developed urban area than developing green-fields.

If we are really serious about increasing infill development as a policy goal, then we need to make investments in local infrastructure and have community-based funding, not just project-based funding, to correct the existing deficiencies in local infrastructure. If not, in many communities the projects will not be financed.

2. Focus on Local Economic Development Efforts for All Communities.

While many of us recognize the importance of "mega" projects (e.g. high-speed rail, major roads, and bridges), I suggest that we must also address local-serving projects and economic development efforts, which are critically important.

Any effort by the State to assist local economic development must be useful for both the smaller and more economically-challenged jurisdictions, not only the larger jurisdictions that benefit from tourism and coastal locations. Any new or revised tools must be useful statewide.

3. Enhance Project-Based Incentives for Builders.

Project-based incentives that allow builders and local agencies to share enhanced revenues resulting from new projects will stimulate more economic development. If we want to see more development, then we need to reward those who take the risk and allow them to share the "new revenue" generated by their project, while at the same time also generating new revenues for taxing entities.

Another potential approach, used effectively in Indiana and other states, is to create tax abatements that exempt from the property tax roll all or a portion of the new or increased assessed value resulting from new investment. Tax abatement can be granted on either real or personal property. Real property abatements can be granted for both new construction and rehabilitation, with the abatement limited to the increase in assessed value attributable to the new construction or rehabilitation.

Tax abatements do exist in California to promote public policy goals, such as farmland protection (Williamson Act) and maintenance of historic structures (Mills Act). Perhaps, this approach may also apply to goals of infill investment, economic development, and job creation.

4. Foster Public-Private Partnerships.

Public-Private Partnerships can serve as effective catalysts for investment in public and private projects that provide significant public benefits. By allocating expertise, risks, and rewards between public and private entities, this approach would potentially encourage more private investment in our local communities.

Senator Wolk, your work on AB 642 helped to authorize design-build as an accepted method of project procurement. We now need to foster more public-private partnerships and foster a more entrepreneurial spirit at the local level.

Efforts such as last year's SB 475 (Wright) need to promote private investment in fee-producing infrastructure projects under Government Code Section 5956 and authorize more projects, specifically local projects that create local jobs.

5. Reform Tax Increment.

According to the Lincoln Institute of Land Policy, 48 of 50 states utilize some form of tax increment. California was the leader in 1952 when tax increment financing was created as an innovative way of raising local capital for needed public facilities. Tax increment financing should be reformed to promote focused statewide goals, but also allow for local control and implementation. Creativity and success comes when people are given the flexibility to innovate. Tax increment should not be lost as a tool in California.

To date, Infrastructure Financing Districts have not played a significant role in financing local projects. Reforms to the Infrastructure Financing Districts Act, as suggested by Senator Wolk in SB 214, will enhance the viability of Infrastructure Financing Districts, especially in the absence of tax increment financing for redevelopment.

6. Clarify that the Polanco Act Activities are Still Authorized.

The Polanco Redevelopment Act (AB 3193, 1990) was enacted to assist redevelopment agencies in responding to brownfield properties in their redevelopment areas. It prescribes processes to follow when cleaning up a hazardous substance release and provides immunity from liability for subsequent property purchasers for sites cleaned up under a cleanup plan approved by the appropraite State agency.

As the authority of local governments to use the Polanco Act has been called into question with the demise of redevelopment, the law should clarify that they may still use this tool as they pursue cleanup of brownfields.

7. Authorize Eminent Domain for Economic Development.

While there are many divergent views on eminent domain, there are situations that require local government to utilize eminent domain to further local economic development and revitalization efforts. This tool is important in the rare occasion in which it is needed. The Legislature should design an appropriate eminent domain mechanism to protect property owners, while still allowing for local economic development efforts.

8. Consider a CEQA Exemption for Repair and Replacement Projects.

The approval of SB 266 last year has promise to streamline infill development. It would also be worthwhile to consider an exemption from CEQA for any infrastructure project that merely repairs or replaces an existing facility. If an existing road, bridge or water system is being repaired or replaced, then there should be an exemption from CEQA to reduce the costs of the project, streamline the approval, and allow the infrastructure update that the community needs.

In Conclusion:

Let me close as I opened with the hope that your Committees can produce some meaningful tools that local communities can utilize to fund needed projects and draw additional private investment.

I think the opportunity of this moment is to look at our existing programs, consider revisions to these existing programs, consider the creation of new tools, and consider adopting tools used successfully in other states.

I am happy to take your questions. Thank you.

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POST-REDEVELOPMENT: WHAT'S NEXT FOR LOCAL ECONOMIC DEVELOPMENT

Featured Items — 23 January 2012 www.publicceo.com

By Seth Merewitz

California's economy is still suffering, local government is contracting, public financing is constrained and private debt and equity sources are scarce. Despite all this, economic development, affordable housing and infrastructure investment are still desperately needed and relevant in our communities.

The immediate challenge facing public officials in the wake of the Supreme Court's decision in *California Redevelopment Agency v. Matosantos* is how to develop these much-needed projects without the tools of traditional tax increment-based redevelopment, which has been the norm under the Community Redevelopment Law for the past 65 years.

In the upcoming weeks and months, we may see the state legislature spearhead a redevelopment revival of some sort, or perhaps local government will devise the next generation of economic incentive tools. Needless to say, local government in California has never been more exciting... uncomfortable, uncertain...but exciting, nonetheless.

California will continue to grow and prosper. Like everything else it does, California has historically been at the forefront of many political and economic revelations. The only question is: Where will California's next "Eureka!" come from?

Opportunities after the Recent California Supreme Court Decision. In light of the recent California Supreme Court opinion upholding AB 1X 26 and invalidating AB 1X 27, redevelopment, as we have known it, has been shut down in California. In this post-redevelopment environment, cities and counties need to identify and evaluate potential opportunities and emerging areas. Local officials and the development community challenged by enhanced needs for local economic development, but facing limited resources and cuts in other state and federal grants and programs, must utilize all available resources – and potential partnerships - to make new economic development efforts successful.

These opportunities and emerging areas can be categorized as:

- Public-Private Partnerships;
- New and Emerging Statutory Tools;
- Revisiting Old Tools ("What's old is new again");
- Potential Tools (not yet authorized in California); and
- Non-Monetary Forms of Project Assistance.

Public-Private Partnerships. While recent economic and legislative events have depleted *public* resources available to meet the increasing social demands for capital projects and services, *private* capital may fill the gap in the form of public-private partnerships. The demand from public agencies searching for creative ways to solve problems remains high. Ideally, that demand will be addressed by private investors bringing the capital and expertise to develop the necessary projects.

A "Public-Private Partnership" is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the potential risks and rewards in the delivery of the service or facility.

Both sides need to evaluate the allocation and management of the risks inherent in a particular project, including evaluation of issues related to design, construction, operation, financing and taxation impacts, as well as state and federal regulatory issues. With the transition away from redevelopment, there will be new and evolving public-private contractual arrangements for local-serving projects, including public infrastructure and sustainable and infill development, as well as commercial and industrial projects. The proper alignment of public and private interests is critical for success.

Public-private partnerships will be mechanisms for public entities, private project proponents and investors to use in various contexts, such as the delivery of capital projects or services, asset monetization and fee-producing infrastructure, alternative forms of procurement, concession agreements and various forms of leasing.

These are, in many respects, the same types of deals with which redevelopment agencies have been involved for decades. Now the challenge is to develop them and foster their success without tax increment financing as we have known it for decades.

New and Emerging Statutory Tools. Many new state and federal statutory tools are developing and gaining acceptance in California. These include: New Market Tax Credits, California Infrastructure and Economic Development Bank and infrastructure financing districts (legislation to simplify approval stalled in 2011, but will likely return in 2012).

As these are relatively new, they have not been widely accepted or used to date. Frankly, with redevelopment agencies in the forefront, there has been little need for these other smaller-scale programs. The Supreme Court's decision now has forced the hand of local agencies and developers and may very well lead to a flurry of activity in these previously little-used tools. As the focus moves to delivering jobs and economic development, we can expect these tools to become more broadly used, independently or in conjunction with public-private partnerships, in the absence of other available options.

Revisiting Old Tools ("What's Old is New Again"). Of course, there are many other existing economic and project development tools and incentives in use around the State. However, many have fallen out of favor for various reasons. It is fair to say that these devices may very well be dusted off and used once again in future projects. Some examples are:

- *Special Districts*, e.g. infrastructure and services Community Facility Districts, special tax vehicles, assessment districts and school facility improvement districts;

- *Municipal Tools*, e.g. ground lease or sale of publicly-owned land, development agreements, design-build, lease-leaseback and eminent domain; and

- *Public Financing Tools*, e.g. lease revenue bonds, industrial development bonds, private activity bonds (for market-rate and affordable housing) and certificates of participation.

For many of these financing structures, one of the emerging areas may be with bank lenders or credit enhancement, rather than public bond offerings. This would work especially well for private projects, such as housing, but may also be effective in some cases for public, revenue producing projects or general fund financings. Each project must be analyzed for its potential financial sources and uses to pull together the most appropriate public and private financing plan.

Potential Tools (not yet authorized in California). With the apparent demise of traditional redevelopment, California must take heed of which programs in other states have successfully promoted economic development and job creation. Some options to consider include: sales tax sharing, sales tax revenue bonds, isolated project revenues (sales tax, sewer/water fees) reinvested in projects and other locally-approved incentive programs.

Another reasonable alternative is a revised tax increment financing district mechanism. Other states using tax increment financing have utilized smaller project areas (e.g. Illinois) and requirements to demonstrate economic feasibility and benefit before district approval (e.g. New Mexico).

Non-Monetary Forms of Project Assistance. In addition to various mechanisms to assist projects by financing or various partnering opportunities, cities and counties can also provide non-monetary assistance to potential investors in projects. These include political consistency, stability, commitment and leadership; defined plans and clear road maps to reduce surprises; expedited processing and pre-entitled land; and for the most desired projects, city or county credit to back projects. Local officials, developers and investors all benefit when the projects have an element of certainty attached to them.

Final thoughts on redevelopment. Even though the California Supreme Court has dealt a seeming death-blow to redevelopment in the near term, there are already rumblings of legislative efforts to restore redevelopment in some fashion. The job generation, local economic benefits and affordable housing produced by redevelopment far outshine the reported abuses. Local communities need and want tools to assist projects and local investment. Moreover, the goals of SB 375 and infill development are closely tied to continued redevelopment activities.

Even Dan Walters, columnist for the *Sacramento Bee* and long time naysayer of redevelopment, has suggested that redevelopment should be "[R]einstated, but with very tight limits that would restore its original purpose of dealing with blight..." ("Redevelop In State, But Set Limits," January 3, 2012).

The remaking of redevelopment in California may need to go beyond "blight elimination," and require a more comprehensive update to build the constituency for the economic development, job creation, infrastructure investments, sustainable/infill development, catalyst projects and affordable housing brought about by redevelopment.

Conclusion. If redevelopment is not reinstated in some fashion by the legislature, then the successor agencies will be charged with meeting enforceable obligations entered into by the redevelopment agency as well as performing many other wind down functions. Moreover, the successor agencies will begin the process of selling off all of the commercial, industrial, residential and even vacant land assets currently held by redevelopment agencies across California. This inventory of property for sale throughout the state will present vast opportunities for investors to pick up real estate assets and trigger future economic development or add more real estate inventory to a flooded and depressed market.

Regardless of what happens, there is little doubt that future economic development in California will involve the use of public-private partnerships, emerging statutory tools, revising existing tools or new tools that may not even have been contemplated or used elsewhere.

We are California and we do it our own way. Eureka!

About the Author

Seth Merewitz *is a partner in the Municipal & Redevelopment Law practice group of Best Best & Krieger LLP. Mr. Merewitz heads the firms Public-Private Partnership Practice and provides advisory and transactional services to private entities and public agencies. His practice focuses on real estate development including zoning and land use; municipal and redevelopment law; and public-private partnerships. He can be reached at* ***seth.merewitz@bbklaw.com*** *or at 213-787-2567.*

SUSTAINABLE ECONOMIC DEVELOPMENT POLICY OVERVIEW

Prepared by Alea Gage and Anthony LoPresti with Cecilia Estolano, Karen Chapple and Michelle Wilde Anderson

WHAT IS SUSTAINABLE ECONOMIC DEVELOPMENT?

On November 18, 2011, stakeholders in economic development from think tanks, government agencies, law firms, trade associations and universities around the state convened in a roundtable to discuss the topic of sustainable economic development in California. In order to start the conversation, participants identified a working definition. As put forth by UC Berkeley Emeritus Professor Michael Teitz, and modified in subsequent discussion, it read: *Sustainable economic development enhances equitable local income and employment growth without endangering local fiscal stability, degrading the natural environment, or contributing to global climate change. It challenges the model of growth based on pure consumption rather than human happiness, takes into account long-term goals as well as short-term needs and is sensitive to local context and history.*

WHAT IS THE POLITICAL AND FISCAL CONTEXT?

The California fiscal crisis has left no state program intact, from law enforcement and education to redevelopment agencies, the primary entities coordinating economic development activities on the local level.

At the same time, participants recognized the opportunity inherent in this period of crisis: AB 32, the most ambitious legislation in the country mandating reductions in carbon emissions, and SB 375, a far-reaching effort to align transportation investments, land use planning and affordable housing production on a regional scale. These provide a framework for new and coordinated approaches. The discussion identified three key elements to achieve the objectives of these legislative mandates, revitalize local economies and advance the state's environmental and equity objectives:

- An institutional framework that increases coordination at the regional and state level;
- Policies to facilitate and incentivize a "race to the top" in best economic development practices; and
- Funding to enable policies and actors to translate this vision into reality.

COORDINATION IS KEY: RE-ENGINEERING HOW WE DRIVE DEVELOPMENT IN CALIFORNIA

Critics of redevelopment, and of economic development programs in California more specifically, argue that fragmentation and parochialism compromise their effectiveness. For instance, over 400 redevelopment agencies working on a sub-local level competed with one another for development and jobs while netting little benefit for the state's economy, especially in cases where redevelopment results in the transfer of activity rather than net new growth. Roundtable participants supported the formulation of a statewide investment strategy to award funds for projects that build California's productive economy while providing high-quality jobs—a strategy that entails a new coordinated approach to economic development that builds on existing institutions.

A new strategy should begin with state- and regional-level coordination that implements a cross-jurisdiction investment strategy. A state-level body is better positioned to ensure that government spending is allocated to projects that both grow the state economy and meet basic sustainability standards. Regional-level bodies—counties or metropolitan planning organizations—can coordinate equitable development strategies that respond to state-level criteria. One viable model is the Community Development Block Grant program already in place.

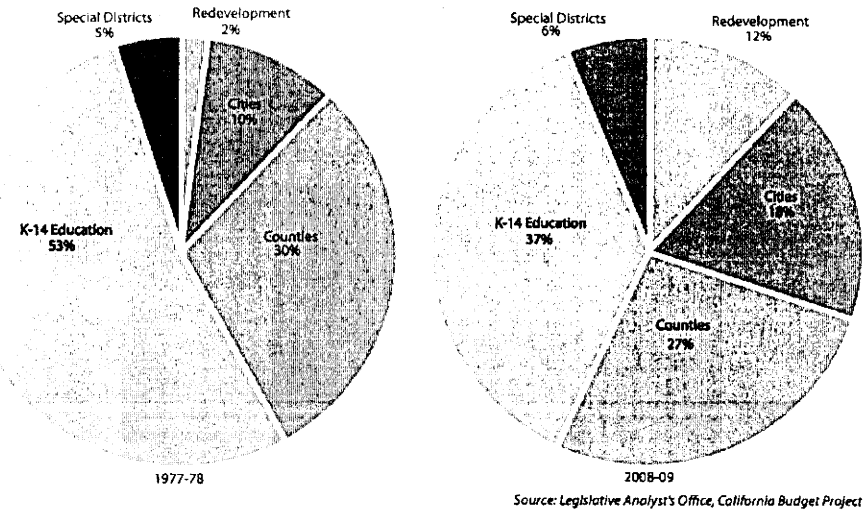


Figure 1. Redevelopment siphoned an increasing share of property taxes; now how should the state re-allocate resources?
Notes: Proposition 13 was enacted following the 1977-78 fiscal year. Redevelopment agencies' share includes some taxes ultimately passed through to local agencies.

Coordination should not come at the expense of local autonomy. The state should institute a competitive process based upon point-scoring criteria that meet principles of sustainable economic development. This would spur local governments to propose projects in a "race to the top."

State-level coordination of government expenditures must incorporate grassroots involvement and small-scale entrepreneurship. In this retooled delivery system, projects are worthy of government investment when they pass muster with local communities, have proven their capacity as innovators in sustainable economic development and job creation and fit into a region-wide strategy. Each level of government has a clear and necessary role in an overarching state investment strategy.

INCENTIVES TO UNLEASH ENTREPRENEURSHIP, INNOVATION AND SUSTAINABILITY

Next, we need to establish an incentive structure that unleashes the private sector's entrepreneurial spirit and rewards companies that are innovating, employing sustainable practices and creating jobs across skill levels. This strategy could encourage cross-sectoral collaboration on a regional scale and spur competition for government investments and subsidies in clean and green enterprises. Participants suggested the following policies as compatible with this approach:

- ***Reward effective public-private partnerships.*** As exemplified by LA Metro's Public-Private Partnership Program, the strengths of such partnerships are not just in raising capital but in non-tangible aspects, such as providing increased certainty for developers.
- ***Replace the previous redevelopment "but for" analysis with one that advances viable, thoughtful projects.*** Instead of "blight," criteria for funding should demonstrate commitment to economic development and sustainability aims as well as track community value created by the investment. For instance, redevelopment funding might be used to make higher-density development outside of California's core cities more economically viable.
- ***View cities, counties and regions as locations of strategic entrepreneurial action.*** Local governments should be proactive in pursuing certain enterprises and private-sector partners to leverage investment that plays to an area's strengths. In this process, regions could evaluate current growth opportunities, such as the knowledge and food sectors, based on a region's assets and potential. The business plan developed for San Bernardino County provides a model.
- ***Develop data systems that measure sustainable economic development outcomes,*** such as development of local supply chains, targeting of firms with the greatest potential to generate long-term family-supporting jobs and reduction of carbon emissions.

- ***Assess the effectiveness of Enterprise Zones as catalysts for economic development.*** Reform efforts should be based on clear job or sectoral growth objectives and should eliminate retroactive tax credits for hiring.
- ***Bolster sustainability efforts on the ground through legislative mandates or planned targets.*** For instance, connect legislative mandates for carbon emission reductions and smart communities with economic development programs already in place.
- ***Encourage long-range planning and investment.*** As in the 30/10 initiative in Los Angeles, fiscal stability and sustainability may be attained by envisioning projects beyond the penciling, pre-development process.
- ***Facilitate the collaboration of varied agencies.*** State economic development agencies should reach out to those agencies charged with management of resources and the environment that are making substantial investments in infrastructure. For example, the California Public Utilities Commission, California Energy Commission and CalRecycle should be involved in policy setting and discussion of economic development policies and incentives in the programs they administer. Investments in green jobs and technology should yield outcomes across agencies, and therefore should be an inter-agency undertaking.
- ***Support CEQA reform along the lines of SB 226,*** providing exemptions for urban infill projects that are supported by transit, or meet other sustainable economic development criteria.
- ***Streamline local permitting*** for projects that meet sustainable economic development criteria.

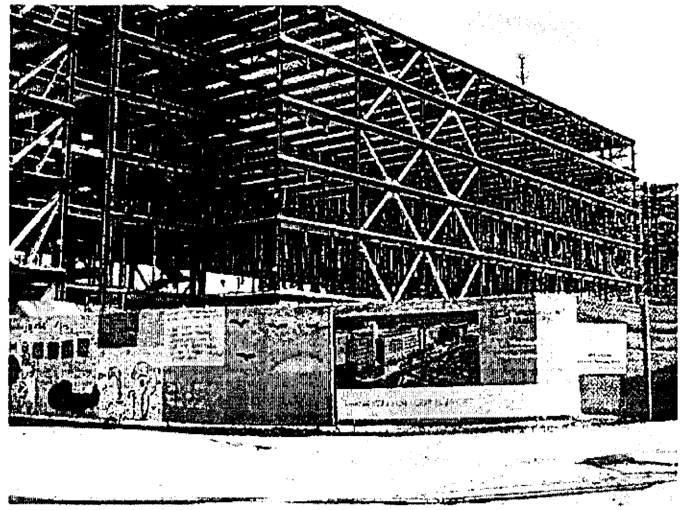


Photo credit: Noe Noyola

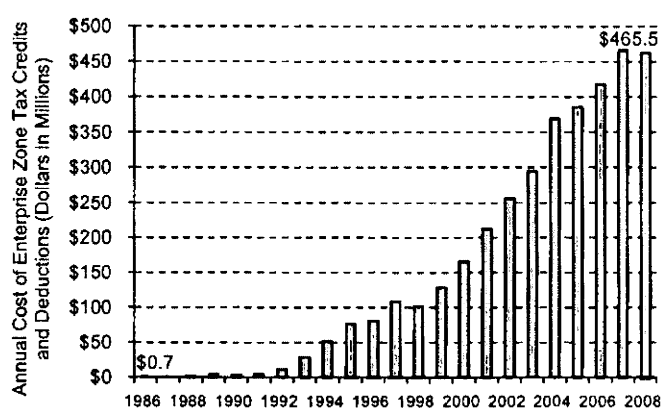
Figure 2. San Francisco's Mission Bay exemplifies how public-private partnerships can provide infrastructure, attract cutting edge industry and spur job growth.

FINDING THE PRIZE: WHERE WILL THE FUNDING COME FROM?

Identifying and securing funding will be a significant challenge in launching this "race to the top." The obvious and perhaps best resource is tax increment financing (TIF), which is still a stable, predictable and effective source of funding (and one that is easily recognized on the bond market). Infrastructure Financing Districts utilize TIF and will likely take on an increasingly important role in the absence of redevelopment. But, any statewide development strategy should also rely on TIF as a foundational funding source.

Alternative proposals put forth included:

- ***Utilize existing funding tools and mechanisms,*** such as the State Infrastructure Bank and AB 857, which links infrastructure planning to compact development.
- ***Use the foreclosure crisis as an opportunity to build and harness the value and power of land.*** Strategically facilitating homeownership, especially among first-time buyers through tax credits or other incentives (as was done on the federal level), may serve to stimulate the local economy and align with the regional land use objectives of SB 375.
- ***Design funding mechanisms that require inter-agency collaboration.*** Propositions 1a, b and c delivered crucial funding for affordable housing and infrastructure development, and helped dismantle silos between state agencies.



Source: Franchise Tax Board, California Budget Project

Figure 3. The cost of enterprise zone tax credits and deductions has skyrocketed.

- ***Engage with models from beyond the public sector.*** Venture capital funding, crowdsourcing and microfinance provide models for innovative funding schemes. Pilot projects may also test ideas and expose stakeholders to them.
- ***Connect funding sources to sustainability targets.*** Road and congestion pricing, a regional gas tax or a tax based on the amount of waste generated could help influence behavior by incentivizing actors to reduce their footprint and to raise funds for critical projects to achieve sustainable economic development.

CALL TO ACTION

- ***Be proactive.*** Stakeholders must not wait for the next crisis for reform or depend on state government to initiate effective changes.
- ***Rebuild trust in local government*** by making development policies and processes more transparent and systematically evaluating and monitoring outcomes.
- ***Re-evaluate and adapt existing economic development tools*** (e.g., Enterprise Zones, incubators, manufacturing extension programs) to support sustainable development outcomes.
- ***Use existing institutional arrangements,*** like the Strategic Growth Council, to drive state-level coordination of sustainable economic development.
- ***Engage communities*** in the process of analyzing their comparative advantages, their existing jobs and business base and institutional assets as a starting point for a sustainable economic development strategy.

PARTICIPANTS

Michelle Wilde Anderson, Berkeley Law
Dan Carrigg, League of California Cities
Karen Chapple, UC Berkeley
Rick Cole, City of Ventura
Cathy Creswell, California Department of Housing and Community Development
Greg Devereaux, San Bernardino County
Ethan Elkind, UCLA
Cecilia Estolano, UC Berkeley
Adam Friedman, Pratt Center for Community Development
Justin Horner, Natural Resources Defense Council
Malo Hutson, UC Berkeley
Meea Kang, California Infill Builders Association
Jim Kennedy, California Redevelopment Association
Dan Kildee, Center for Community Progress
Mary Leslie, LA Business Council
Seth Merewitz, Best Best & Krieger
Gabe Metcalf, San Francisco Planning and Urban Research
David Neumark, UC Irvine
Camille Pannu, Center on Race, Poverty & the Environment
Gabriel Ross, Shute, Mihaly & Weinberger
Mike Schmitz, ICLEI-Local Governments for Sustainability
Phoebe Seaton, Community Equity Initiative, California Rural Legal Assistance
Libby Seifel, Seifel Consulting
Kate Sofis, SFMade
Michael Teitz, Public Policy Institute of California, UC Berkeley
Elisabeth Voigt, Public Advocates
Steve Weismann, Center for Law, Energy and the Environment
Bill Witte, Related California
Jennifer Wolch, UC Berkeley

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BerkeleyLaw UNIVERSITY OF CALIFORNIA

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William Fulton, who recently stepped down as mayor of Ventura, is a senior fellow at the Price School of Public Policy at the University of Southern California and a principal at the Planning Center | DC&E.

Viewpoints: Tools can help cities cope after redevelopment

By William Fulton
Special to The Bee
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For now, redevelopment in California is dead. But that hasn't eliminated the need for public policy to support urban revitalization.

Indeed, Gov. Jerry Brown still supports aggressive policies in this vein – for example, implementing the SB 375 regional planning law, passed in 2008 as part of the climate change effort, and streamlining environmental review for infill projects.

So the question is not whether redevelopment will come back, but how and in what form. And the fact is that both the state government and California's cities can take steps right now to encourage infill development and urban revitalization without going back to redevelopment.

The state has a bundle of tools and funds that could be packaged and organized better to help cities with infill development. The state has at least two pots of money that local governments use for planning – Proposition 84 funds and Department of Transportation planning grants – and this money could be pushed out the door faster, with a focus on redevelopment-style efforts.

The same goes for the infill infrastructure funding and transit-oriented development housing money provided by Proposition 1C, which was passed in 2006. In addition, the state could also speed up implementation of SB 226, a law to create faster environmental review of infill projects, which Brown signed earlier this year.

Individually, all of these reforms can help cities create valuable urban projects that promote the state's policy goals. But they can be far more effective if they are coordinated. The Brown administration should fast-track a package of strategies that will help move urban projects forward in the absence of redevelopment.

Cities have options too – even with redevelopment gone. Four options look strong: land, sales-tax increment, bonus densities and streamlined processing.

• Land. Redevelopment has always sought to "level the playing field" with suburban development, which is subsidized in other ways. Traditionally redevelopment agencies have subsidized land in order to make urban projects work. But there are ways to make land available cheaply.

All government agencies – cities, counties and school districts, for example – own urban land. Nonprofit institutions located in urban areas – universities, hospitals and the like – also tend to be land-rich. These agencies and institutions don't want to give away their land. But they can come to the redevelopment table as equity partners, committing their land at no cost to a redevelopment deal upfront in exchange for a back-end financial payoff.

• Sales-tax increment. The redevelopment law only affects property tax. Some cities also have aggressively used tax-increment financing drawn from sales-tax generating projects – essentially, committing a portion of the future revenue stream to pay for infrastructure or subsidize development. Obviously, this method will work only if the project throws off sales tax. In the past, sales-tax-increment deals have been used to fund suburban-style shopping centers and auto dealerships. But this technique could assist urban projects with a retail component or an employment center that generates a lot of taxable business-to-business sales – an often-overlooked source of funding.

• Bonus densities. By offering higher densities in exchange for infrastructure and amenity funds, cities can make well-rounded urban projects worthwhile for developers. Transferring development rights is tricky, but can also help. The idea is this: Developers "buy and sell" existing rights to either wind up with a more advantageous zoning restriction or generate cash to pay for infrastructure and subsidize land costs. This technique has been used successfully in downtown Los Angeles and downtown Seattle.

• Streamlined processing. Cities can also help by creating "specific plans" for whole urban neighborhoods that front-load the environmental and community review process so individual developers can then construct projects more quickly at the back end.

Obviously, the state's actions can help local efforts. For example, aggressive guidelines to streamline environmental review under SB 226 can help expedite local specific plans, while state planning grants can fund them. And surplus state land could be made available to cities to help make urban projects work.

Even if redevelopment is gone for good, California will need public policy to promote infill development and urban revitalization in the years ahead. The state needs to make sure those opportunities are available, but they must be packaged in a coordinated and strategic way. And California's cities must get used to thinking more broadly about how to make redevelopment work.

William Fulton, who recently stepped down as mayor of Ventura, is a senior fellow at the Price School of Public Policy at the University of Southern California and a principal at the Planning Center | DC&E. He blogs on redevelopment at www.cp-dr.com.

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Joint Senate Hearing - Financing Affordable Housing and Local Economic Development
OCBC message points

- Chair DeSaulnier, Senators, thank you for the time to address you this morning.

- My name is Kate Klimow, Vice President of Government Affairs for the Orange County Business Council

- We represent the business community, working to enhance Orange County's economic development and prosperity in order to preserve a high quality of life.

- Since 1950, California's annual population has increased by about 450,000 people a year. That is like adding a city of San Jose or Long beach every year.

- Even as volatile as the last few years have been for California, we know that the only thing predictable is population growth. As such, if we don't plan for growth, growth will plan for us.

- From an economic development perspective, we have a shortage of housing at every job level, from hourly to salary so to meet the long-term success of California, a broad spectrum of housing products needs to be made available. It is a simply formula really, supply, plus choices and affordability equals a healthy housing stock.

- The business community cites the lack of housing affordable to their workforce and proximate to their jobs as a major impediment to attracting and keeping workers. Housing needs are particularly acute for a large part of the state's minimum and moderate wage workforce. When it comes to the health and vitality of our communities, affordable housing is key.

- Now, the best way to ensure affordability is to ensure abundant supply. However, as the housing market and California's economy continue to struggle to find their footing, programs that support the affordable end of the housing scale need to be preserved.

- We want to commend Senator DeSaulnier for advancing this concept of a permanent source of funding for affordable housing. OCBC strongly believes that every city must plan to meet its current and future housing needs, for all of its residents.

- But with the uncertainty in this post-redevelopment world, along with the pressure to comply with SB 375, the ability of local jurisdictions and the marketplace to meet the densification of urban centers is highly problematic. High development costs to address aging or inadequate infrastructure capacity and higher density projects threatens the availability of sufficient housing options necessary to meet the needs of a dynamic workforce.

- The private market cannot meet the needs of those lower on the economic ladder, even if all regulatory impediments are eliminated. The land and construction costs of even basic rental or single family homes simply add up to more than a lower-income household can support in rent or mortgage payments.

- A permanent source of funding will create jobs, stimulate economic activity, begin to address the complaints of many employers who cannot attract a workforce because of high housing costs, and provide state support for a range of choices to ALL economic levels of our society.

Testimony of Shiloh Ballard of the Silicon Valley Leadership Group

February 22, 2102

SVLG Overview: Who I am and what we do.

My name is Shiloh Ballard, Vice President of Housing and Community Development for the Silicon Valley Leadership Group. For those of you who don't know, the Leadership Group was founded in 1977 by David Packard of Hewlett Packard to involve Silicon Valley CEOs and their companies in working with government to find innovative solutions to issues like transportation, housing, energy and the environment.

Why does an organization representing the Innovation Economy care about housing you may ask? Because our membership understands the link between housing availability and their ability to recruit and retain a world-class workforce. In fact, this portion of our agenda is underscored each year through our annual CEO Business Climate Survey where we ask our CEOs about the top impediments to doing business in Silicon Valley and California. Each year the top vote getter is housing. And with the recent uptick in job creation, we're going to be right back to where we were with skyrocketing rents and high housing prices.

Solutions

Because you have sat patiently through many speakers, I am going to jump directly to some of the ways in which we think the State can be helpful.

The first is very simple and a very appropriate role for the State to play that I'd like to suggest. That is to make clear and definitive statements of the State's goals and priorities through policy.

For example, by requiring 20% of redevelopment funding be spent on affordable housing, a policy statement was made. That policy statement – housing is important.

On the other hand, by not clarifying that inclusionary zoning law is not in violation of the State's rent control act, a policy statement is made – affordable housing is less important.

And, by adopting and strengthening housing element law, a law that requires every city to plan for housing and then for that plan to be certified by the State, a policy statement is made – that housing is important.

This is the first thing the State has done and should continue to do. Demonstrate the importance of housing through strong housing policy. It sends an important signal to local governments, the ones that actually make the land use decisions.

Specifics

I'm going to talk now very briefly about two main specifics: increased funding and increased efficiency

As you've heard from my fellow panelists, the way to make housing more affordable is by making sure there is funding available to subsidize affordability. The Leadership Group has, for years, supported the effort to establish a permanent source of funding for affordable housing and we are extremely pleased to see the introduction of a bill towards this end.

And while I do think it is premature to spend much time arguing over how to spend money that we don't yet have in hand, we do have ideas about the best ways to spend housing money in a way that actually results in production.

The other way to make housing more affordable is by reducing regulations and complexities associated with building more homes.

The development of affordable housing has become an incredibly complicated task rife with consultants and lawyers who each take their cut. I liken it to doing my taxes each year – If I have to pay someone to help me figure out how to do my taxes then the system is too complicated. The same goes for affordable housing. How we fund the production of affordable homes is over complicated. This issue should be addressed.

In that same vein, there are regulations that make it much more difficult to increase the supply of all types of housing including affordable homes. The California Environmental Quality Act is one such regulation and while well intentioned, it unfortunately gets used by entities that care more about their own personal agenda than CEQA's intended purpose of protecting the environment. We must continue to pursue ways of protecting the environment through CEQA while allowing good sound infill housing developments to sail through the process. Less time spent in the process equals money saved overall.

In fact, the proper use - and all-too-common abuse - of CEQA is why we are hosting a CEQA tour in Silicon Valley on Friday morning, March 16. We will take legislators, legislative staff, environmental leaders and other concerned citizens on a tour to show first-hand infill developments, transit-oriented developments and other proposals that have been blocked. We invite each of you, and your staffs, to join us.

With that, thank you again for inviting the Silicon Valley Leadership Group to speak today. I look forward to any questions you may have and hearing the comments from the public.

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