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PRESS RELEASE

PUBLIC

Redevelopment Agencies In California Receive Huge Annual Subsidies

Few That Don't Are Focused on Developing Vacant Land, Not Revitalizing Blighted Areas

SAN FRANCISCO, California, February 25, 1998--Redevelopment agencies (RDAs) in California receive annual subsidies of well over $170 million, according to a report released today by the Public Policy Institute of California (PPIC). The two-year study found that RDAs--93 percent of which are city agencies--generate only slightly more than half of the property tax revenues they receive each year.

"We are looking at well over a billion dollars in the last ten years that was diverted from other local entities such as counties, schools, and special districts," says the study's author Michael Dardia. "While it may be that these subsidies are essential to achieving state policy goals for redevelopment, it is important to know the size of these subsidies and understand the trade-offs involved."

Because the stakes are so high, the financing of projects has been one of the most controversial aspects of redevelopment policy, especially since the passage of Proposition 13 limited local governments' ability to raise taxes. Once an RDA forms a project area, any increase in property taxes (above a 2 percent annual inflation factor) goes to the RDA for the life of the project--often 30 years or more. The rationale for this tax revenue is that the RDA's improvements in the area are responsible for increasing property values.

RDAs currently receive over 8 percent of all property taxes collected in the state every year. This study is the first to estimate how much of that revenue results from redevelopment activities rather than general economic trends. The result: Three quarters of the redevelopment projects studied failed to generate most of property tax revenues they received.

The study matched 38 redevelopment projects initiated between 1978 and 1982 to Census Block Groups in the same city that were similar to the project areas in terms of poverty and vacancy rates. The change in property values for the project areas and the matched areas were compared from 1983 to 1996. Although most project areas grew faster than their matches, they needed to grow much faster than they did to justify their property tax revenues. In fact, only four projects grew fast enough to justify the RDAs' claim that they were solely responsible for the increase in property taxes.

Recognizing the strain that redevelopment financing could cause other local jurisdictions, the state has helped them regain some of the tax increment through payments, called pass-throughs, from RDAs. In 1993, reform legislation (AB 1290) was passed that set a uniform pass-through rate of approximately 33 percent. However, this adjustment relied more on political judgement than empirical evidence and applied only to new projects. Dardia notes that even if the pass-through rate mandated by AB 1290 had applied to the projects in his study, they still would be heavily subsidized.

RDAs grew out of the federal urban renewal programs of the 1940s and were authorized by the state legislature to combat urban blight. However, the definition of blight used to establish RDA project areas is notoriously vague, including everything from poor lighting to lack of jobs to vacant land. Indeed, the projects in the study that did generate at least 80 percent of the tax revenues they received were also the ones with the most vacant land--they began with an average of more than 50 percent undeveloped property.

"In these cases, RDAs appear to be engaged in development, not redevelopment," concludes Dardia, who notes that AB 1290 did prohibit new projects from including large amounts of vacant land. "While these projects are certainly better revenue generators than others in truly blighted neighborhoods, it is not clear that the real purpose of redevelopment is being served here."

Based on his findings, Dardia makes four policy recommendations to state lawmakers:

- The state legislature should formally clarify the goals of redevelopment.
- The definition of blight should be aligned with the goals of redevelopment and made more precise.
- Some form of oversight authority should be established to monitor RDA behavior.
- If the legislature intends redevelopment to be self-financing rather than heavily subsidized, the pass-through rate should be increased significantly.

Subsidizing Redevelopment in California is part of a series of studies that PPIC has undertaken to improve understanding of state and local finance in California. Future reports will include an analysis of the Orange County bankruptcy and a report on state and local tax burdens.
The Public Policy Institute of California is an independent, nonprofit organization dedicated to nonpartisan research on economic, social, and political issues that affect the lives of Californians.