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Redevelopment Blights The Golden State

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By STEVEN GREENHUT

In Sacramento, Governor Jerry Brown is planning to close California's \$26.6 billion structural deficit through spending cuts and tax extensions. Opposition has been spirited but less contentious than expected, probably because of the size of the budget hole. But one item of Brown's plan—something that would save about \$1.7 billion annually—has generated heated debates between local officials and the new administration. The governor has proposed eliminating California's approximately 400 redevelopment agencies (RDAs).

In theory, RDAs spearhead blight removal. In fact, they divert billions of dollars from traditional services, such as schools, parks, and firefighting; use eminent domain to seize property for favored developers; and run up California's debt to pay those developers to construct projects of dubious public value, such as stadiums and big-box stores. Most Californians have long been unaware that these agencies exist. As the activist group Municipal Officials for Redevelopment Reform puts it, RDAs constitute an "unknown government" that "consumes 12 percent of all property taxes statewide," is "supported by a powerful Sacramento lobby," and is "backed by an army of lawyers, consultants, bond brokers and land developers."

As of late March, the outcome of Brown's battle against the RDAs was in question, with the state legislature lacking the votes to approve it. Too bad. It's high time that the agencies were shut down.

California's redevelopment agencies got their start in 1945, when the state legislature authorized their creation to combat urban decay. At the time, politicians nationwide touted urban-renewal projects as a way to jump-start development in impoverished inner cities. Today, many urbanists recall these projects as a national travesty, a failed experiment in top-heavy government and liberal social engineering that obliterated neighborhoods, eroded property rights, gave developers downtown land on the cheap, uprooted city dwellers, and exacerbated urban problems.

The California law lets a city establish a redevelopment agency, governed by a board appointed by the city council—though in almost every case, the board members and the council members are one and the same. (A county, too, can create an RDA, through its board of supervisors.) The agency's first task is to find urban blight. As a state senate committee explains it, "Before redevelopment officials can wield their extraordinary powers . . . they must determine if an area is blighted." But the definition of blight is very broad: it can include not just unsafe buildings but also "incompatible land uses," stagnant property values, either excessive urbanization or insufficient urbanization, and lack of modern infrastructure. So if a redevelopment

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agency wants to redevelop a particular area, it will find a definition that suits that area; and once it issues a blight finding, the courts will rarely rebuke it.

After blight is found, the agency can start using those “extraordinary powers.” For instance, Michael Dardia explained in a 1998 report for the Public Policy Institute of California, RDAs “can assemble property for sale to private parties and can use eminent domain if necessary to acquire private property that they want to sell, often at a discount, to a private developer.” They can also offer incentives to that developer, subsidizing the construction of stadiums, hotels, auto malls, and retail stores, to take some common examples.

To pay for these subsidies, an RDA employs a novel mechanism called “tax-increment financing.” First, the agency issues debt—unlike city governments, it isn’t required to hold a public vote first—and bestows the borrowed money on the developers of its choice, who proceed to build within the designated “project area.” As property-tax revenues in the area rise, state law gives the RDA the entire increase in revenues; the agency deserves it, the thinking goes, for making the stagnant area revive. The agency uses that tax increase, called the “increment,” to pay off its debt. This arrangement allowed RDAs to amass nearly \$30 billion in debt by the end of the 2008–09 fiscal year, according to the state controller’s latest numbers.

But what happens to the public schools, which depend on property taxes to survive? By law, the state government must use its general fund to compensate the schools for the money that the RDA has diverted. That comes to a lot of money: again, RDAs consume about 12 percent of all statewide property taxes, and over half of that take would otherwise have gone to the schools. What this boils down to is that—at a time when the state must save billions—taxpayers throughout California are subsidizing the agencies, which in turn are subsidizing developers.

Redevelopment project areas are supposed to expire eventually, but like most government programs, they rarely do. The agencies repeatedly extend the life of the areas and continue floating debt, managing development decisions, and spending tens of millions of dollars to pay the planners, consultants, developers, and attorneys who specialize in the redevelopment process and are an effective lobby to ensure that it never dies. The redevelopment machine has also steadily expanded its footprint. “During the early years of California’s redevelopment law, few communities established project areas and project areas typically were small—usually 10 to 100 acres,” the state’s Legislative Analyst’s Office recently reported. “Over the last 35 years, however, most cities and many counties have created project areas and the size of project areas has grown—several cover more than 20,000 acres each. . . . In some counties, local agencies have created so many project areas that more than 25 percent of all property tax revenue collected in the county [is] allocated to a redevelopment agency, not the schools, community colleges, or other local governments.”

Is there that much blight in California, or is something else going on here? History provides a clue. If blight removal were really the agencies’ mission, then you’d expect California’s redevelopment expansion to have taken place between the 1940s and the 1960s, when there was more real blight. Instead, more than half of the state’s RDAs were formed after 1978, when Proposition 13, by capping property-tax increases, threatened to impose spending limits on cities. “Since the property tax constraints imposed by Proposition 13 in 1978, local governments have been searching for new sources of revenue,” Dardia wrote. Redevelopment agencies were a windfall—not a way to revamp run-down areas but a way to divert money from the state.

The redevelopment industry keeps using the old urban-uplift rhetoric to justify its powers and budgets. “The abandoned gas station, dilapidated housing project, and a vacant strip mall that is continually vandalized are all examples of deteriorated and blighted areas,” says the California Redevelopment Association (CRA), the lobby that represents the RDAs. “Revitalization of these areas does not happen on its own. . . . Redevelopment serves as a catalyst for private investment by providing the initial plan and seed money that ultimately breathes new life into areas in need of economic development and new opportunity.” (The CRA, by the way, is funded mainly by member agencies, meaning that it amounts to a taxpayer-financed lobby.)

More and more, though, RDAs are dispensing with the pretense of fixing blight. Many are focusing less on tougher, older areas and instead are trying to lure new businesses to “greenfields”—lots on the outskirts of town. Some officials have placed their entire cities in redevelopment areas. And agencies explicitly advance various goals beyond blight removal, claiming to boost economic development, provide affordable housing, reenergize downtowns, and create hundreds of thousands of jobs in the process.

Do these lofty growth claims hold water? Redevelopment officials arrive at them by taking credit for every new job and every new economic activity in a redevelopment area. But that isn’t a plausible boast. Crunching the numbers, Dardia found that after correcting for local real-estate trends, “redevelopment projects do not increase property values by enough to account for the tax increment revenues they receive. Overall, the agencies stimulated enough growth to cover just above half of those tax revenues. The rest resulted from local trends.”

Further, RDAs typically engage in “growth capture,” waiting until an area is on the upswing and then swooping down and grabbing properties on behalf of developers. This tactic helps the agencies, which receive a bonanza from the area’s already-rising property taxes, but it does nothing to improve downtrodden urban cores. Old Town Pasadena, which has become lovely, would no doubt have revived without redevelopment cash.

Redevelopment is also based heavily on the mistaken premise that big, often tourist-oriented projects—stadiums, theme parks, Costcos—are the key to the economic growth of cities. In 1997, the Brookings Institution’s Roger Noll and Andrew Zimbalist debunked the idea that stadiums in particular draw much

revenue to a region, concluding that “a new sports facility has an extremely small (perhaps even negative) effect on overall economic activity and employment. No recent facility appears to have earned anything approaching a reasonable return on investment.” Nevertheless, in Sacramento, where basketball’s Sacramento Kings are planning a move to Anaheim, officials are reviving talks of a new arena to lure another team—a plan that may include redevelopment and tax subsidies.

Though the RDAs’ claims are inflated, it’s certainly true that they can increase economic activity in the areas they target. But even that isn’t necessarily a good thing because they’re sucking most of that growth away from other places in California. As Brown explained in his budget proposal, “There is little evidence that redevelopment projects attract business to the state. Studies indicated most of the business development is simply shifted from elsewhere in the state.”

Southern California residents don’t care whether they buy their Hondas in the Cerritos Auto Mall or up the 605 freeway in El Monte. California’s cities care, though, and for good reason: they keep one cent of every dollar spent within their borders. That’s a powerful incentive for them to want retail centers rather than, say, factories. And so cities offer rich incentives to entice and satisfy such companies, which in turn often play the cities for fools. In 1999, Costco demanded that the city of Lancaster condemn a nearby competitor, the 99 Cents Only Store, or else Costco would move to neighboring Palmdale. The 99 Cents Only Store and the Costco were in the same shopping complex; both were in the same condition. Nevertheless, Lancaster’s redevelopment agency proceeded to condemn the 99 Cents Only Store, whose owner fought the condemnation and won—a rare victory over an RDA in court. Eventually, the city gave Costco land in a public park.

The biggest problem with the entire redevelopment model is that central planners—whether they’re working in European bureaucracies or in stucco-clad government buildings in Southern California—can rarely predict consumer demand with accuracy. Consider some of the absurd projects that the RDAs have embraced. When I covered Orange County politics in 2005, redevelopment officials in the older, working-class city of Garden Grove had decided that their city needed to be a world-class resort, like nearby Anaheim. So they were trying to condemn an entire neighborhood of well-kept 1960s-era suburban houses and market the land to a yet-to-be-determined theme-park developer. The city council eventually halted the plan after residents protested at City Hall.

That project went away, but the local RDA retained the power to pursue equally bad ideas. “Even in a city that has entertained the most improbable of dreams, the latest plan to woo tourists and big bucks to Garden Grove is off the charts,” the *Los Angeles Times* reported in 2007. “An Indian tribe has formally proposed building a Las Vegas–style casino complex just up the road from Disneyland in the latest and far and away most lavish plan for making Garden Grove a tourist destination. The Gabrielino-Tongva Tribe’s proposal calls for two opulent casinos housing 7,500 slot machines, two upscale hotels, a 10,000-seat stadium and—the topper—a promise of a college scholarship for every high school graduate in Garden Grove.” Other plans were sillier still: “One developer proposed a Latino theme park, another pitched a replica of the London Bridge across a fake river, and Middle Eastern investors wanted to build a museum dedicated to the late King Hussein of Jordan.”

Even in the projects that redevelopment supporters like to highlight, it’s hard to see the benefits. Sacramento mayor Kevin Johnson wrote in the *Sacramento Bee* that “redevelopment has also helped strengthen the core of our city, the downtown. For example, K Street is now attracting a wide range of entertainment and restaurant choices to boost the economy.” My office is a block from K Street, which has long been the city’s prime redevelopment focus, so I can testify that it remains a symbol of downtown blight, riddled with vagrants and vacant storefronts. As the *Sacramento Press* reported in 2009, “With a 45 percent ground floor vacancy rate, K Street’s health is currently struggling. In an effort to help the street improve the blocks between 7th and 13th streets, the city has been pumping millions upon millions of dollars into projects to then watch little to no improvements in foot traffic, empty store fronts and public safety. The list of subsidized projects is getting longer every year.”

The RDAs’ diverted funds and failed promises are reason enough to get rid of them, but their abuses of property rights are the last straw. After the U.S. Supreme Court’s controversial 2005 *Kelo* decision allowed the use of eminent domain for economic-development purposes, most states followed the court’s additional advice and reformed their eminent-domain rules to make it harder for redevelopment agencies to drive property owners off their land. California failed to pass serious reform, however, and its RDAs continue to confiscate private property. In 2002, for example, the city of Cypress’s RDA invoked eminent domain to seize property owned by the Cottonwood Christian Center and transfer it to retail stores. City officials pointed out that churches, unlike stores, don’t pay many taxes. After years of legal wrangling, the city and church cut a deal that allowed both retail development and a church.

Such proceedings are manifestly unfair, of course. But they also wreak economic damage by diminishing property rights and confusing expectations. I once interviewed a developer who owned a strip mall in Southern California. He wanted to rebuild it, but it was in a redevelopment area, so he had no secure property rights. Sure, he could invest a few million dollars in the project, but because he feared that the city would take the property away, he sat on it. I remember another area that was being threatened by eminent domain. Activity stopped in the neighborhood—until the day after the local RDA’s plan was halted, when owners went back to work improving their properties and expanding their businesses.

If cities want to spur economic growth, they have a far more effective approach at their disposal—one pioneered by Anaheim. In the 1970s, the city’s redevelopment agency bulldozed part of the seedy but

historic downtown, planning to create a new downtown district by luring new companies that would build high-rises and other attractions. But it's easier to demolish old buildings than it is to find investors to put up new ones, so the result was parking lots and vacant land. The downtown remains largely a ghost town more than three decades later.

But starting in 2002, under the leadership of former mayor Curt Pringle and current mayor Tom Tait, the city embraced a freedom-friendly approach to land use. Their target was an area called the Platinum Triangle, a collection of one-story warehouses that they wanted to become a new downtown with high-rise condos, hotels, restaurants, and shopping. Instead of taking the redevelopment approach—creating a project area and then forcing businesses to leave—the city “upzoned” the Triangle, allowing far more uses for the land. This was a great stroke of luck for the area’s businesses: they could stay if they chose (the city outlawed eminent domain for economic development), but most sold out to developers, who paid handsome sums for land that was now zoned for more valuable residential and office uses. Then the city encouraged the developers to bring their plans to City Hall. The area boomed with high-rises constructed in a couple of years (though it did hit hard times after the real-estate bubble burst).

The lesson: deregulation and private enterprise work better than central planning. Developers don’t need subsidies and eminent domain to build in older cities; they need the relaxation of burdensome government rules and a reduction in taxes, which tend to be higher in urban cores. And they need the freedom to develop their own plans, rather than blueprints from city-hall planners.

Prior to Governor Brown’s proposal, state legislators had made many efforts to grab some of the RDAs’ funds. Brown, far more radically, would dissolve the agencies entirely and create successor agencies to pay off the existing bond debt. It’s a welcome idea, though Brown has also proposed making it easier for localities to hike taxes and borrow by lowering the voter-approval threshold from a two-thirds majority to 55 percent. The last thing California cities need, given their propensity to spend money on outsize pay and pension packages for public employees, is increased authority to raise taxes.

The agencies haven’t taken Brown’s proposal lying down. Mere days after the governor announced it, the *Los Angeles Times* reported, “Los Angeles’ redevelopment agency board hastily voted Friday to commit \$930 million of agency money to the city to carry out redevelopment projects for years to come—presumably moving the money out of the state’s reach. The move, which would have to be approved by the Los Angeles City Council, would tie up the money the agency expects to take in via property taxes through 2016 and keep the funds from reverting to counties and [the] school district as called for in the governor’s plan.” Similarly, news reports across the state depicted RDAs spending feverishly on half-baked projects—including those that council members had previously shown little interest in funding—simply to tie up money. The projects included the funding of fast-food restaurants, shopping malls, and a skating rink. Whether the state’s legislature or courts will intervene remains to be seen.

What also remains to be seen is whether the California State Assembly, which didn’t approve Brown’s proposal in March, will ever see reason. Perhaps the assembly should remember the words of Johnson, the Sacramento mayor, who has praised redevelopment projects as “magical things.” He speaks more truly than he knows. Emblematic of the magical thinking that has smothered California’s finances, RDAs are unfair, uneconomical, and ineffective. Brown is right to try to eliminate them.

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