**BREAKING NEWS: BIG CHANGES COMING FOR REDEVELOPMENT AGENCIES?**

A Report on Redevelopment Agencies in Mendocino County

June 7, 2011


***Summary***

The 2010-2011 Mendocino County Grand Jury (GJ) chose to look into local Redevelopment Agencies (RDAs) to inform the public of the inner workings and accomplishments of redevelopment in Mendocino County.

The California Redevelopment Act was created in 1945 to enable the formation of local RDAs to eliminate blighted properties and to improve selected areas. More than three-quarters of California cities and many counties have RDAs. More than half of these RDAs were established after 1978, when Proposition 13 passed, which required a super-majority of voters to approve new taxes.

The Mendocino County Board of Supervisors and the City Councils of Ukiah, Willits, and Fort Bragg voted to create RDAs. The City of Point Arena does not have an RDA. Redevelopment plans provide agencies with the powers, duties, and obligations to implement programs for redevelopment, rehabilitation, and revitalization of blighted areas.

The initial funding for RDAs came from bond sales. Increases in property taxes (incremental tax), after the inclusion of the blighted areas, are directed to the respective redevelopment agencies. The increase in property taxes repays the bonds and helps fund future development/redevelopment. New RDA projects can also be funded by the issuance of new bonds.

The California Governor proposes to abolish local redevelopment agencies by July 1, 2011, and redirect billions of dollars in property taxes to the State General Fund to help balance California's budget.


***Method***

The 2010-2011 GJ interviewed RDA staff members. Documents reviewed included: budgets, staffing allocations, City of Ukiah's Five Year Implementation Plan and Mid-Term Review, Mendocino County's RDA Five Year Implementation Plan, City of Willits Five Year Plan, City of Fort Bragg's RDA Adopted Budget, articles from the California Redevelopment Association, and State Controller's report entitled "Selected Redevelopment Agencies Review Report – Analysis of Administrative, Financial and Reporting Practices" dated March 2011. The GJ also read numerous media articles.

***Background***

The California Community Redevelopment Act (Act) was enacted in 1945 to give local governments the tools necessary to address problems such as degraded buildings, lack of housing, and blighted areas. The Act, now known as the Community Redevelopment Law (CRL), was revised in 1993 to restrict and focus redevelopment activities to ensure that redevelopment occurs in urbanized areas on previously or currently developed properties.

In 1951, the State Legislature amended the 1945 tax law paving the way for tax increment financing, using projected future gains in property taxes to finance current improvements.

In 1952, the CRL authorized the distribution of tax increments to agencies. The purpose was to relieve taxpayers' cost of redevelopment by making projects self-supporting.
In 1976, RDAs were required to set aside 20% of the tax increment for affordable housing, known as the *20% housing set-aside.*

In 1978, Proposition 13 limited the tax rate for real estate by assessing property at its 1975 value and restricting annual increases of assessed value of real property to an inflation factor, not to exceed 2% per year.

In 2008, the State *swept* the RDA fund to balance the 2009 budget with no promise to replace. In 2009, the State demanded that $2.05 billion be returned to the State's General Fund from RDAS. This issue is currently in litigation.

***Findings – General***

1. Most California RDAs were formed after the passing of Proposition 13 in 1978, which limited the ability of local governments to raise property taxes.
2. Mendocino County and the Cities of Ukiah, Willits, and Fort Bragg have established RDAs. Point Arena has no RDA. The Board of Supervisors or the City Councils serve as the governing boards of their respective RDA.
3. The RDAs exist as a tool to reduce blight in urban deteriorated areas by achieving revitalization, development, and rehabilitation.
4. A function of redevelopment is the collection of increased property tax revenues from improved properties.
5. Blighted conditions, as defined by law, can be economic and/or physical, and are defined by Health and Safety Code §33030(b) and §33031. (Appendix A)
6. The interpretation of blight varies among local RDAs; therefore, local RDA goals and operations are different.
7. The common concept of blight is a run-down, dilapidated, crime ridden, unkempt property or neighborhood that diminishes the value of adjacent properties and negatively affects the quality of life.

8. Initial RDA funding was derived from bond sales. All RDA bonds are issued without a vote of the people.
9. There is public misunderstanding regarding the use of RDA funds, and the necessity of some RDA projects.
10. Local RDAs have not formed redevelopment citizen advisory committees, allowed and encouraged under RDA Rules[1], to gain greater public input, trust, and understanding.
11. The RDA bonds are repaid with the incremental increases in property taxes that result from higher assessed valuations on the redeveloped properties in the RDA zone.
12. The RDAs do not levy taxes and do not have the ability to raise taxes.
13. The RDAs pay for administrative salaries and benefits, studies, new project development, infrastructure, and other related costs. These costs are funded by bonds, unless the RDA has excess monies.
14. Employee salaries are paid with RDA funds disproportionate to the time spent on RDA business. More than one RDA employees' salary and benefits are paid 100% with RDA funds even though they do not perform 100% RDA business. The proposed loss of RDA funds can lead to employee layoffs.
15. The RDAs are required by law to set aside 20% for low and moderate income housing projects. Local RDA budgets indicate that they are in compliance.
16. The RDAs have tax sharing agreements with schools, special districts, and other government entities. The Mendocino County Treasurer-Tax Collector distributes the funds according to the pass-through and contractual agreements.
17. Funding for new RDA projects, staffing, and the ability to repay existing RDA bonds are threatened by decreases in property tax revenues.
18. Often infrastructure must be improved or developed to accommodate a project. Studies required for projects consume resources and employees' time.
19. *Eminent Domain*, allowed under State law, can be used as a tool by government to acquire private property for the public good; it is seldom used in Mendocino County.

***Findings – Ukiah RDA***

20. The Ukiah City Council adopted the Ukiah Redevelopment Plan on November 15, 1989. The area encompasses the downtown business area and the Redwood Business Park property.
21. The 1989 RDA plan did not include *Eminent Domain*, a tool to acquire property.
22. The RDA defines blight as "any property that is under performing, or not performing in the market place within the RDA zone. Redevelopment is a tool to improve a blighted area when the private market fails".

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[1] These groups collaborate with the agencies throughout every step of the redevelopment process – from identifying a project area to construction to project completion. These groups ensure that projects reflect community needs and priorities, and keep other community members informed about the progress of the project.

23. Recently, the City of Ukiah was given the legal authority to inspect a downtown structure over the objection of its owners. The building has been vacant for over 20 years.
24. The RDA is using funds to pay significant portions of 18 employees' salaries and benefits:

| | | | |
|---|---|---|---|
| City Manager/Exec. Dir. | 50% | Senior Planner | 40% |
| Ass't City Mgr. | 80% | Assoc. Planner | 25% |
| City Clerk | 50% | Ass't Engineer | 31% |
| Ass't Finance Dir. | 15% | Accounting Ass't. | 15% |
| Director of Finance | 35% | Administrative Sec. | 20% |
| Project and Grant Admin. | 100% | Administrative Sec. | 40% |
| Finance Controller | 7% | Park Service Worker | 60% |
| Accountant | 15% | Director of Public Works | 8% |
| Senior Civil Engineer | 32% | Director, Planning & Community Dev. | 35% |

25. The RDA has agreements for funding schools within the target area. The schools must use this money for capital improvements. This money cannot be spent for administration, salaries, or other regular expenses.
26. In 2006-2007, the RDA received $474,829 from incremental property taxes. The RDA paid $260,974 in salaries and benefits; operation and maintenance were $162,460 for a total of $423,435.
27. In 2009, the State of California removed $1,744,481 of the RDA's tax increment revenue as part of a $2.05 billion statewide shift of local taxes to cover the State's obligations. The agency is required to make an additional payment to the State this year, in the amount of $359,158, for a total of over $2.1 million.
28. The 2010-2011 budget anticipated tax revenue for the RDA of $808,288. Salaries and benefits are $640,401; operations and maintenance are $66,247.
29. Some past and present RDA projects include:
    - Redwood Business Park infrastructure on Airport Blvd.
    - Downtown Beautification Project
    - 322 units of affordable housing public/private partnership (1990-2007)
    - Alex Rorabaugh Gymnasium and Activity Center
    - Orchard Street Bridge
30. The City of Ukiah has discussed the possibility of employee layoffs should the State abolish or significantly change the structure of RDAs.
31. The RDA staff speculates there will be an increase of sales tax revenues with the opening of a big-box retail store in the Redwood Business Park.

### *Findings – Willits RDA*

32. The Willits RDA has chosen to limit the use of redevelopment funds due to lack of administrative personnel.

33. The 2010-2011 budgets lists 10 employee salaries and benefits that are paid in part by RDA and RDA housing funds:

| | | | |
|---|---|---|---|
| City Manager | 10% | Finance Director | 15% |
| Code Enforcement/Ass't Planner | 25% | Building Inspection | 15% |
| Water Conservation Officer | 100% | Engineer Tech III | 2.5% |
| Office Assistant II | 5% | City Engineer | 10% |
| Engineering Tech II | 30% | Comm. Dev. Officer | 45% |

34. The Redevelopment Plan terminates in 2014, unless it is extended. The final date to receive tax increments to pay indebtedness for this plan terminates in 2024.
35. The RDA may consider deferring loan repayments until 2014 to preserve a means of continued funding for community development.
36. In 2002, the RDA issued $4 million in bonds and envisioned numerous projects; but only one, the Wood Street City Parking Lot, was completed.

***Findings – Fort Bragg RDA***

37. The RDA funded the redevelopment of the downtown area and explored the development of the closed Georgia Pacific Mill property.
38. The 2010-2011 budget reveals 13 employees are partially paid with RDA funds for a total of $333,854 in salaries and benefits:

| | | | |
|---|---|---|---|
| City Manager | 30% | Assistant City Manager | 10% |
| Admin. Secretary | 10% | Administrative Secretary | 35% |
| City Clerk | 10% | Office Clerk | 10% |
| Finance Director/Treasurer | 15% | Senior Govt. Accountant | 15% |
| Govt. Accountant I | 5% | Community Dev. Director | 50% |
| Senior Planner | 30% | Housing and Econ. Dev. Coordinator | 70% |
| Public Works Director | 5% | | |

39. The RDA has taken advantage of grants to make studies. When an opportunity arises, the RDA uses these studies to shorten the application process for public and non-profit grants for projects.
40. The former Georgia Pacific property, once assessed at $110 million, was negotiated to a reassessed valuation of $35 million. This loss of $75 million of assessed valuation was made retroactive for three years, causing $724,000 to be refunded by the Fort Bragg RDA.

### *Findings – Mendocino County RDA*

41. The Board of Supervisors functions as the Mendocino County RDA governing board.
42. Mendocino County has a relatively small RDA zone; comprised of three sub-areas, spread over 772 acres. Two areas border the City of Ukiah along State Street and are named the South Ukiah Sub-Area and the North Ukiah Sub-Area. The third is a community north of Ukiah, the Calpella Sub-Area.
43. Mendocino County bills the RDA fund for actual time spent by county employees on RDA business.
44. The Mendocino County RDA is currently focusing on Mendocino Community College, exploring the following projects: capital improvements, commercial developments, new residential and rehabilitation housing programs.

### *Recommendations*

The Grand Jury recommends that:

1. the City of Ukiah budget employee staffing allocations to the actual time spent on Redevelopment Agency business, (Findings 13-14, 24, 26-28, 30)

2. the Redevelopment Agencies partner with their local Code Enforcement Agency to compel owners of blighted properties to comply with Health and Safety Codes, (Findings 5, 7, 23)

3. the Cities and the County develop alternative revenue streams to replace anticipated Redevelopment Agency revenue losses, (Findings 1, 4, 8-9, 11-19, 21, 23-28, 30-33)

4. the Cities and the County establish redevelopment citizen advisory committees to allow for greater public input and oversight. (Findings 6-44)

### *Discussion*

The California Governor proposes to abolish local redevelopment agencies by July 1, 2011, and to redirect billions of dollars in property taxes to the State General Fund to help balance California's budget. This proposal would have negative financial impacts to each city in California with a RDA. Cities that rely heavily on RDA funds to pay employee salaries and benefits may need to issue employee layoff notices. Willits, Ukiah, and Fort Bragg use RDA funds to supplement employee compensation.

Property tax revenues have declined with the downturn of the economy; revenues are reduced when there are closures of local businesses and loss of jobs. When large businesses fail, vacant structures are worth less and owners may request a reassessment of the property. These negative impacts are felt by the County, cities, special districts, schools, and Redevelopment Agencies.

The RDAs have been utilized by local governments to issue debt without a vote by the people, bypassing restrictions created by Proposition 13. Citizens and taxpayers question specific projects being considered for funding by RDAs.

***Responses Required***

Mendocino County Board of Supervisors, serving as the Redevelopment Board (Findings 1-19, 41-44; Recommendations 2-4)

Ukiah City Council, serving as the Redevelopment Board (Findings 1-19, 20-31 Recommendations 1-4)

Willits City Council, serving as the Redevelopment Board (Finding 1-19, 32-36 Recommendations 2-4)

Fort Bragg City Council, serving as the Redevelopment Board (Findings 1-19, 37-40; Recommendations 2-4)

# Appendix A

A blighted area must be predominantly urbanized, meaning that at least 80% of the land in the project area (1) has been or is developed for urban uses, or (2) is an integral part of an urban area, surrounded by developed parcels. Additionally, a blighted area must have at least one of four conditions of physical blight and at least one of seven conditions of economic blight.

## Health and Safety Code §33030(b)

A blighted area is one that contains both of the following:

(1) An area that is predominantly urbanized, as that term is defined in §33320.1, and is an area in which the combination of conditions set forth in Section 33031 is so prevalent and so substantial that it causes a reduction of, or lack of, proper utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community that cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment.

(2) An area that is characterized by one or more conditions set forth in any paragraph of subdivision (a) of §33031 and one or more conditions set forth in any paragraph of subdivision (b) of Section 33031.

(c) A blighted area that contains the conditions described in subdivision (b) may also be characterized by the existence of any of the following:

(1) Inadequate public improvements.

(2) Inadequate water or sewer utilities.

(3) Housing constructed as a government-owned project that was constructed before January 1, 1960.

## Health and Safety Code §33031

(a) This subdivision describes physical conditions that cause blight:

(1) Buildings in which it is unsafe or unhealthy for persons to live or work . . .

(2) Conditions that prevent or substantially hinder the viable use or capacity of buildings or lots . . .

(3) Adjacent or nearby incompatible land uses that prevent the development of those parcels or other portions of the project area.

(4) The existence of subdivided lots that are in multiple ownership and whose physical development has been impaired by their irregular shapes and inadequate sizes, given present general plan and zoning standards and present market conditions.

(b) This subdivision describes economic conditions that cause blight:

(1) Depreciated or stagnant property values.

(2) Impaired property values, due in significant part, to hazardous wastes on property . . .

(3) Abnormally high business vacancies, abnormally low lease rates, or an abnormally high number of abandoned buildings.

(4) A serious lack of necessary commercial facilities that are normally found in neighborhoods, including grocery stores, drug stores, and banks and other lending institutions.

(5) Serious residential overcrowding that has resulted in significant public health or safety problems . . .

(6) An excess of bars, liquor stores, or adult-oriented businesses that has resulted in significant public health, safety, or welfare problems.

(7) A high crime rate that constitutes a serious threat to the public safety and welfare. *Selected Redevelopment Agencies Ana* redevelopment agency cannot levy a tax. Instead, a redevelopment agency receives its funding from tax increment revenues. Tax increment revenues are revenues generated by the increase in the value of property within the redevelopment project over the value of the property when the project was established (base value). The California Supreme Court described the process as follows:

Under tax increment financing, "[a]ll taxable property within the area to be redeveloped is subject to ad valorem taxes. The properties lying within a redevelopment area have a certain assessed value as of the date a redevelopment plan is adopted. A local taxing agency, such as a city or county, continues in future years to receive property taxes on the redevelopment area properties, but may only claim the taxes allocable to the base year value. If the taxable properties within the redevelopment area increase in value after the base year, the taxes on the increment of value over and above the base year value are assigned to a special fund for the redevelopment agency. . .

Once the redevelopment plan is adopted, the redevelopment agency may issue bonds to raise funds for the project. As the renewal and redevelopment is completed, the property values in the redevelopment area are expected to rise. The taxes attributable to the increase in assessed value above the base year value are assigned to the redevelopment agency, which then uses the funds to retire the bonds. The local taxing agencies still receive taxes attributable to the base year assessed value of the properties within the redevelopment area.

Redevelopment agencies are subject to a number of administrative, financial, and reporting requirements. These specific requirements are discussed in the Findings and Recommendations section of this report.