

# Redevelopment: The Unknown Government

*What it is. What can be done.*

A Report to the People of California

September, 2007

# REDEVELOPMENT: THE UNKNOWN GOVERNMENT

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# 1 — The Unknown Government

There is an unknown government in California.

This unknown government currently consumes nearly 12% of all property taxes statewide — \$4.1 billion in 2006. It has a total indebtedness of over \$81 billion.

It is supported by a powerful Sacramento lobby and backed by an army of lawyers, consultants, bond brokers and land developers.

Unlike new counties, cities and school districts, it can be created without a vote of the citizens affected.

Unlike other governments, it can incur bonded indebtedness without voter approval.

Unlike other governments, it may use the power of eminent domain to benefit private interests.

This unknown government provides no public services. It does not educate our children, maintain our streets, protect us from crime, nor stock our libraries

It claims to eliminate blight and promote economic development, yet there is no evidence it has done so in the half century since it was created.

Indeed, it has become a rapidly growing drain on California's public resources, amassing enormous power with little public awareness or oversight.

This massive unknown government is Redevelopment.

It is time Californians knew more about it.

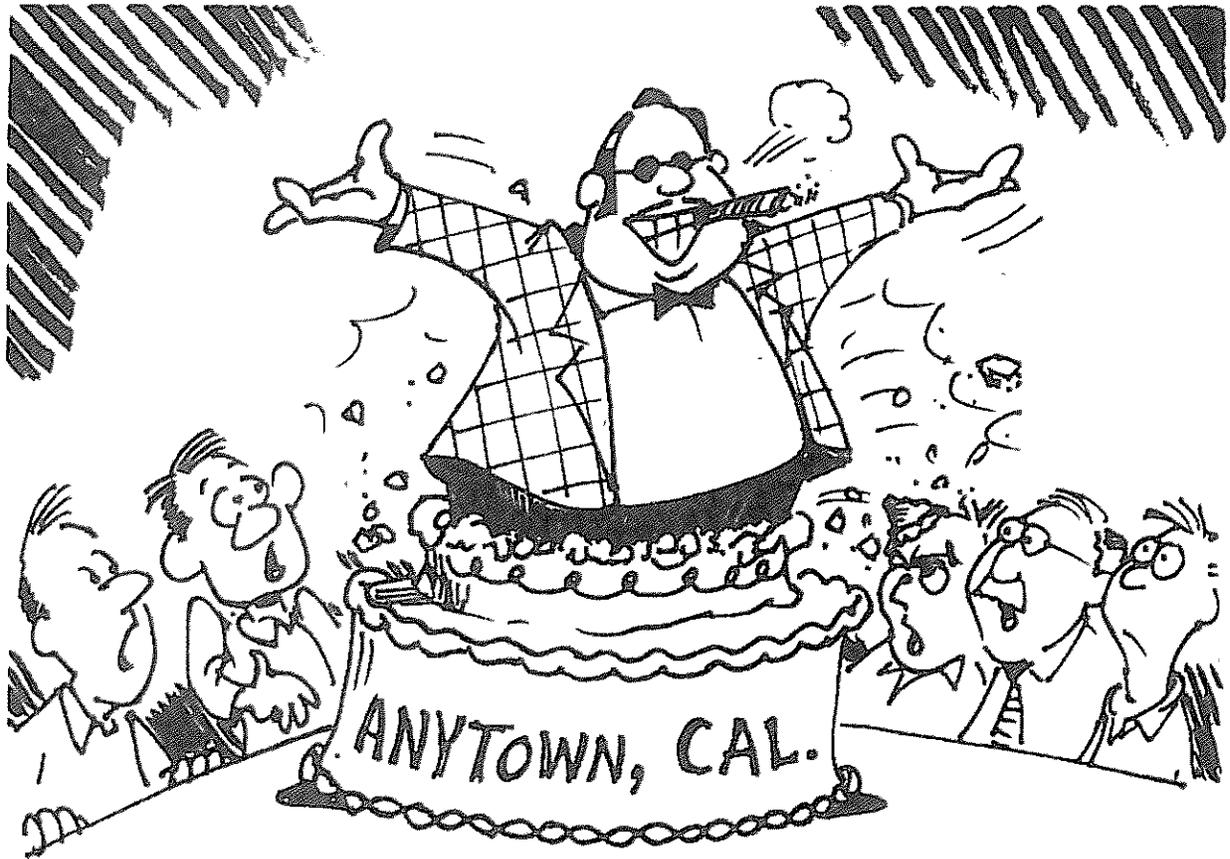
State law allows a city council to create a redevelopment agency to administer one or more "project areas" within its boundaries. An area may be small, or it can encompass the entire city.

These project areas are governed by a redevelopment agency with its own staff and governing board, appointed by the city council.

Thus, an agency and city may appear to be one entity. Usually city councils appoint themselves as agency board members, with council meetings doubling as redevelopment meetings. Legally, however, a redevelopment agency is an entirely separate government authority, with its own revenue, budget, staff and expanded powers to issue debt and condemn private property.

Out of California's 478 cities, 387 operate redevelopment agencies. No vote of the residents affected was required. No review by the Local Agency Formation Commission (LAFCO) was done. (Only 23 of 58 counties have active agencies, but these affect only shrinking unincorporated areas and constitute about 4% of all redevelopment expenditures.)

Californians often confuse redevelopment with federal "urban renewal" projects typical of large eastern cities of the 1940's-60's. Sadly, the methods and results are often similar. Yet redevelopment is a state-authorized layer of government without federal funds, rules or requirements. It is entirely within the power of the California legislature and voters to control, reform, amend or abolish.



*"I'm from Redevelopment and I'm here to help you."*

## 2 — Blight Makes Right

All a city need do to create or expand a redevelopment area is to declare it “blighted”.

This is easily done. State law is so vague that most anything has been designated as “blight”. Parkland, new residential areas, professional baseball stadiums, oil fields, shopping centers, orange groves, open desert and dry riverbeds have all been designated as “blight” for redevelopment purposes.

Blight consultants know that blight is a forgone conclusion, regardless of actual conditions. Fully 30% of all urbanized land in California has now been declared blighted.

“Cities adopted very loose and very creative definitions of blight,” writes syndicated *Sacramento Bee* columnist Dan Walters, author and long-time state policy analyst. “Often, vacant, never-developed land is branded as blighted to allow its inclusion in a redevelopment zone.”

A city park in Lancaster was declared blighted to pave 19 acres of parkland and axe 100 trees for a new Costco. Raw desert acreage in California City was declared blighted to justify its seizure for a Hyundai test track.

An Orange County public health facility was declared blighted by the Santa Ana Redevelopment Agency in order to turn the property over to a BMW dealer.

Blight has been proclaimed in some of California’s most affluent cities. Indian Wells, a guard-gated community with an average \$210,000 household income, has 3,100 acres in a consolidated “Whitewater Project Area”.

Redevelopment has little to do with cleaning up real urban decay. In fact, the California Redevelopment Association is making an expansion push in new suburban cities. This strategy was outlined in the CRA-sponsored seminar “Suburbs: The Greatest Redevelopment

Opportunity” on March 8, 2006 held in Monterey.

Since the blight designation expands eminent domain powers and building permits can now be denied if an applicant does not conform precisely to the redevelopment plan, citizen groups often mount legal challenges. Counties typically challenge blight findings to protect their revenue stream from agency diversions.

Courts have overturned blight findings in Mammoth Lakes, Diamond Bar and Temecula, invalidating their redevelopment plans. Others are challenged by counties and school districts that stand to lose major property tax revenue if a new redevelopment area is created.

Recent state legislation has tightened definitions of blight, particularly those involving open and agricultural land. Still, enforcement is lax, legal challenges costly and most agencies were already created long before recent reform attempts.

Once the consultant’s blight findings are ratified, a city may create or expand a redevelopment area. Voter approval is never asked. Citizens can force a vote by gathering 10% of the signatures of all registered voters within 30 days of the council action. Where this has occurred, redevelopment nearly always loses by wide margins (rejected in Montebello by 82%, La Puente by 67%, Ventura by 57%, Los Alamitos by 55%, Half Moon Bay by 76%, for example).

The requirements to force a vote are difficult to meet, however. In the vast majority of cases, a popular vote is never held. Rather, the consultant’s findings of blight are quickly certified. A law firm is then retained to draw up the paperwork and defend against legal challenges.

A growing number of law firms specialize in redevelopment. Like the consultants, they are members of the California Redevelopment Association, a Sacramento-based lobby. They are listed in the CRA's directory and advertise in its newsletter. Their livelihood depends on the aggressive use of redevelopment and increasingly imaginative definitions of blight.

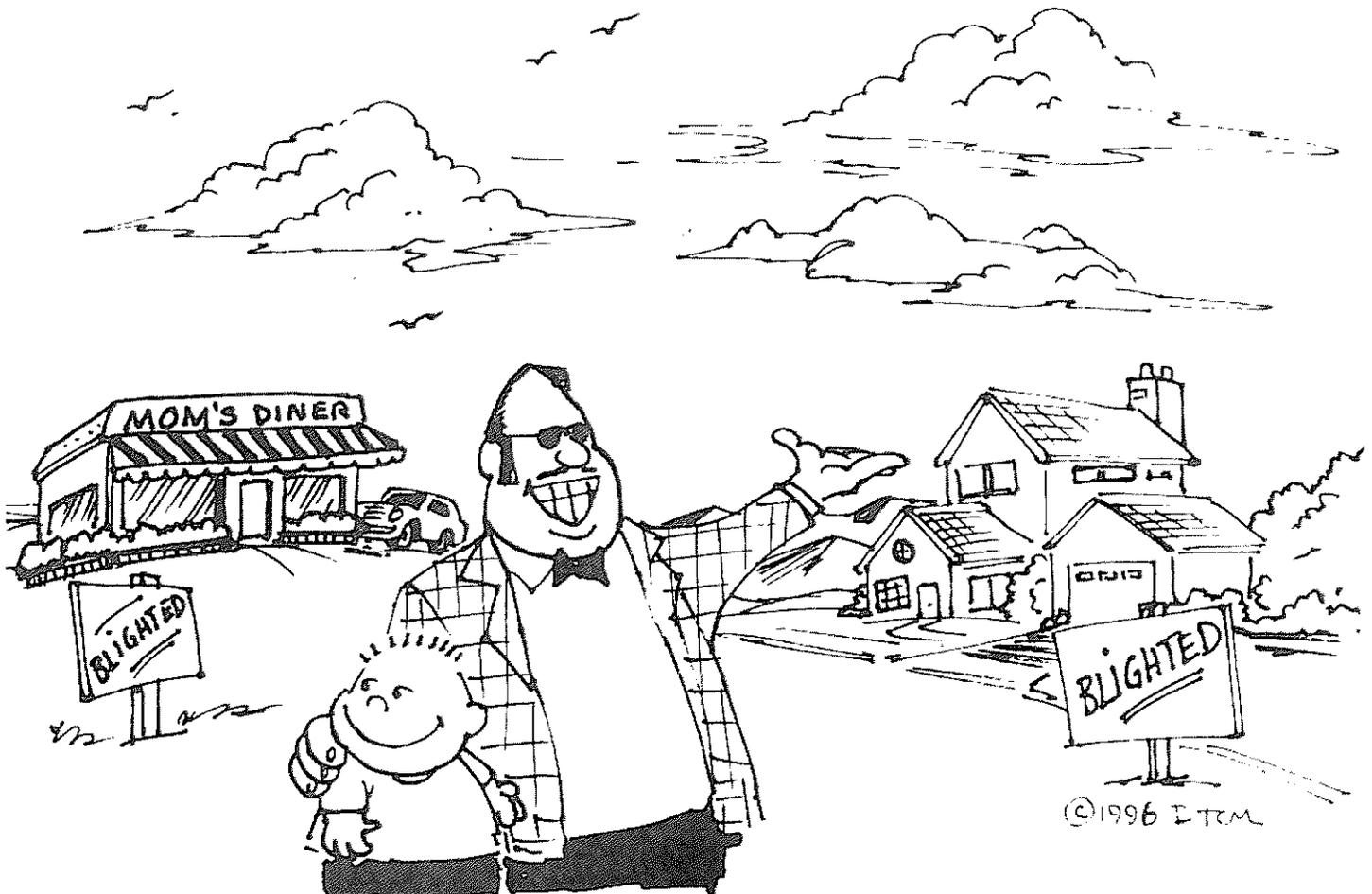
To eliminate alleged blight, a redevelopment agency, once created, has four extraordinary powers held by no other government authority:

- 1) **Tax Increment:** A redevelopment agency has the exclusive use of all increases in property tax revenues ("tax increment") generated in its designated project areas.
- 2) **Bonded Debt:** An agency has the power to sell bonds secured against future tax

increment and may do so without voter approval.

- 3) **Business Subsidies:** An agency has the power to give public money directly to developers and other private businesses in the form of cash grants, tax rebates, free land or public improvements.
- 4) **Eminent Domain:** An agency has expanded powers to condemn private property, not just for public use, but to transfer to other private owners.

These four powers represent an enormous expansion of government intrusion into our traditional system of private property and free enterprise. Let us carefully consider the costs of this power and if it has done anything to eliminate real blight.



***"It's easy . . . blight is whatever we say it is!"***

### 3 — Tax Increment Diversion

Once a redevelopment project area is created, all property tax increment within it goes directly to the agency. This means all increases in property tax revenues are diverted to the redevelopment agency and away from the cities, counties and school districts that would normally receive them.

While inflation naturally forces up expenses for public services such as education and police, their property tax revenues within a redevelopment area are frozen. All new revenues beyond the base year can be spent only for redevelopment purposes.

In 2006, this revenue diversion was just over \$4.1 billion statewide. This means nearly 12% of all property taxes were diverted from public services to redevelopment schemes. Even with modest inflation, the percent taken has roughly doubled every 15 years. (Table 3.1).

Total acreage under redevelopment has nearly doubled in the past decade, with more than 1.2 million acres tied up in tax increment diversions (Table 3.4).

If redevelopment were a temporary measure, as advocates once claimed, this diversion might be sustainable. Once an agency is disbanded, all the new property tax revenues would be restored to local governments. Legally, agencies are supposed to sunset after 40 years, but the law contains many exceptions and is easily circumvented. Tougher sunset legislation is needed to close agencies at a predetermined date. Only then will property tax diversions end and the funds restored to the public.

Counties are the biggest losers with over \$514 million in annual revenues lost to redevelopment agencies (Table 3.2).

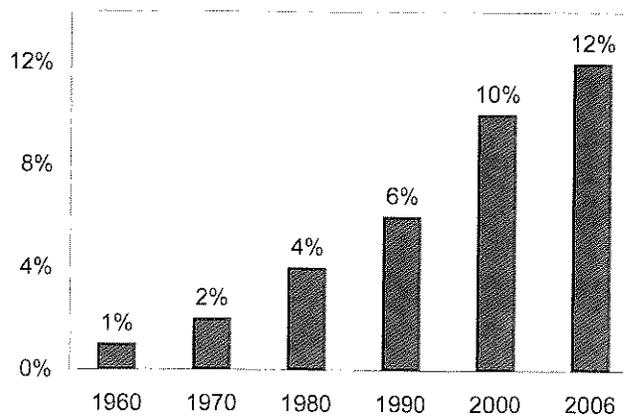
Los Angeles County alone has lost over \$2 billion in general fund revenues since 1990 to redevelopment diversion. These are funds desperately needed to keep open public hospitals, staff emergency rooms, stack library shelves and fully fund law enforcement.

Santa Clara County CEO Peter Kutras has labeled these losses “fiscal eminent domain” and has called for County oversight over redevelopment activities.

Currently proposed legislation gives County Boards of Supervisors oversight on future redevelopment area expansions, extensions and amendments in order to help recapture the counties’ lost share of these revenues. Such oversight is essential to stop the continued bleeding of revenues needed for essential public services.

School districts are theoretically protected under Proposition 98, but often must sue to force “pass-through” agreements to restore part of their lost revenue.

**TABLE 3.1**  
**Property Tax Increment as a Percentage of**  
**Total Property Tax Revenues Statewide**  
(Percent of Property Taxes Diverted to Redevelopment)



SOURCE: California State Controller's Office

Saddled by its heavily indebted and now defunct Riverwalk plan, the Garden Grove Redevelopment Agency reneged on \$2 million owed to local schools, until threatened litigation restored the funds.

In 2002, the Placentia-Yorba Linda Unified School District successfully sued the Yorba Linda Redevelopment Agency to recoup up to \$240 million in lost property tax revenues. With \$775 million in indebtedness, the agency had diverted school funds to build golf courses and shopping centers.

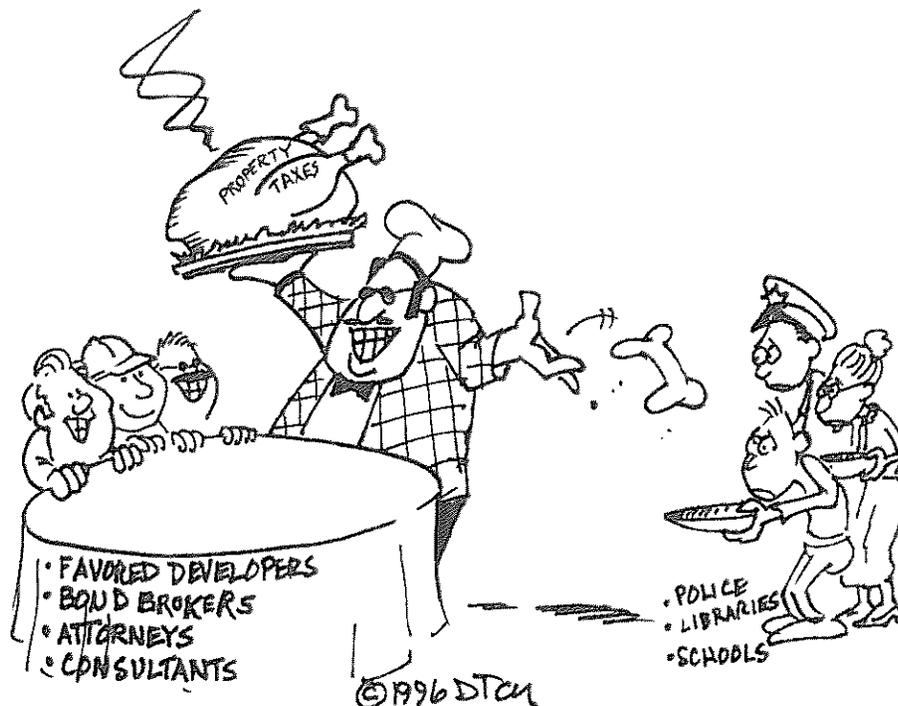
Faced with lost property taxes, school districts have slapped steep building fees on new residential development, thus passing the burden of redevelopment onto new homeowners and homebuilders.

Tax increment financing also impacts municipal budgets by diverting city revenues into redevelopment agencies. That part of the tax increment that would have gone to a city's general fund is lost and can now be used only by redevelopment agencies. Thus, there is now

money to build auto malls and hotels but less for police, fire fighters and librarians. Cities cannot use redevelopment money to pay for salaries, public safety or maintenance, which are by far the largest share of municipal budgets.

Redevelopment boosters claim the agency is entitled to keep the tax increment because it was created by agency activity itself. The exhaustively researched *Subsidizing Redevelopment in California* by Michael Dardia (Public Policy Institute, San Francisco, 1998) disproved this. Thorough analysis showed property tax diversions to be a net loss, and do not "pay for themselves" with increased development.

Advocates also claim that redevelopment agencies do not raise new taxes. While narrowly true, the agency tax increment diversions starve legitimate government functions of necessary revenues, thus pressuring tax increases to make up the shortfall.

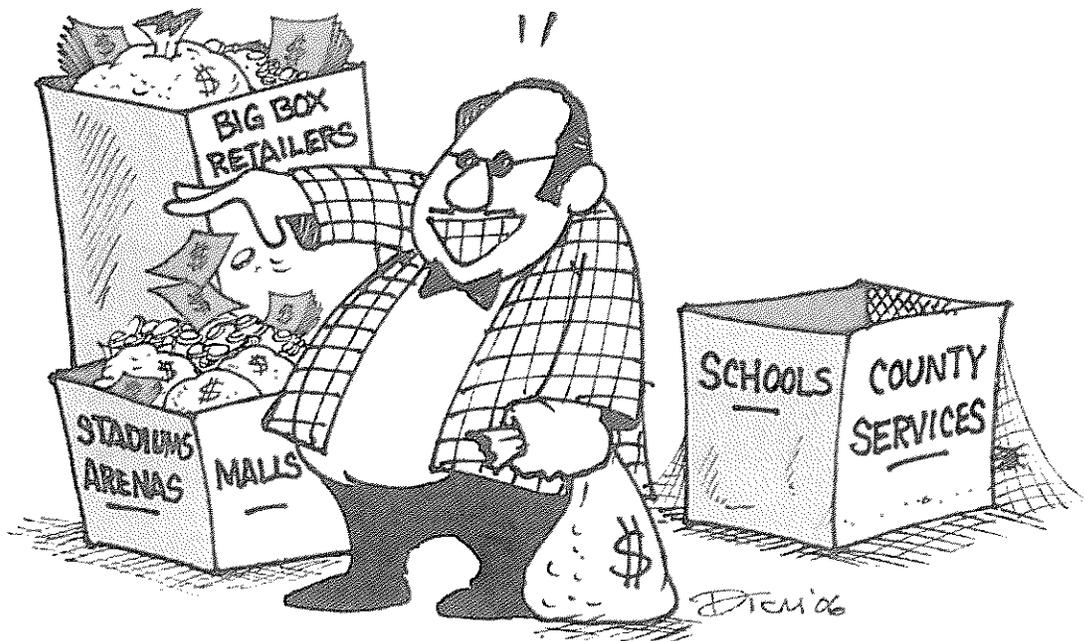


**"Eat hearty, boys . . . plenty more where this came from!"**

## Table 3.2 County Property Tax Losses To Redevelopment Agencies

	FY 2005-06	Total Losses 1989-2006		FY 2005-06	Total Losses 1989-2006
Los Angeles	\$184,558,787	\$2,176,633,209	Butte	2,538,808	20,812,101
San Francisco	38,233,605	286,361,350	Stanislaus	2,132,388	13,345,455
San Bernardino	35,365,412	356,041,724	Merced	1,953,658	20,647,296
San Diego	33,473,238	289,153,157	Marin	1,811,670	20,111,881
Riverside	33,342,082	332,827,798	Yolo	1,700,841	19,711,502
Santa Clara	31,279,035	478,929,688	Kings	1,553,734	13,416,795
Alameda	25,026,796	233,310,709	San Luis Obispo	1,539,349	7,300,841
Orange	16,460,599	188,778,316	Shasta	1,520,641	13,114,704
Contra Costa	15,066,429	166,846,469	Mendocino	1,378,736	13,862,018
San Mateo	9,648,686	97,494,082	Imperial	1,242,723	14,354,987
Sonoma	9,512,949	77,255,901	Humboldt	1,106,633	14,035,825
Sacramento	9,251,032	95,995,450	San Benito	1,042,546	11,184,022
Solano	8,827,241	99,263,755	El Dorado	995,482	5,613,717
Ventura	8,029,654	77,577,941	Lake	720,766	3,101,390
San Joaquin	7,245,244	39,533,742	Madera	644,025	4,616,797
Monterey	4,547,244	45,989,835	Napa	553,781	7,594,847
Santa Barbara	4,203,539	45,264,655	Sutter	372,317	3,410,121
Kern	4,111,004	38,791,835	Nevada	346,657	1,745,406
Santa Cruz	4,091,226	44,808,796	Tuolumne	189,996	13,508,643
Fresno	2,893,136	39,895,212	Yuba	95,619	1,136,376
Placer	2,775,698	16,358,555	Del Norte	88,514	1,319,188
Tulare	2,577,409	23,041,684			
			<b>State Total</b>	<b>\$514,048,930</b>	<b>\$5,474,097,774</b>

Source: State Controller's Report on Redevelopment Agencies F.Y. 1989-2006



In 2000, the bipartisan Commission on Local Governance for the 21st Century, chaired by San Diego Mayor Susan Golding, released its report, *Growth Within Bounds*. The commission specifically cited the negative impact of tax increment financing, noting that, "This financing tool has steadily eaten into local property tax allocations that could otherwise be used for general governmental services, such as police and fire protection and parks" (page 111).

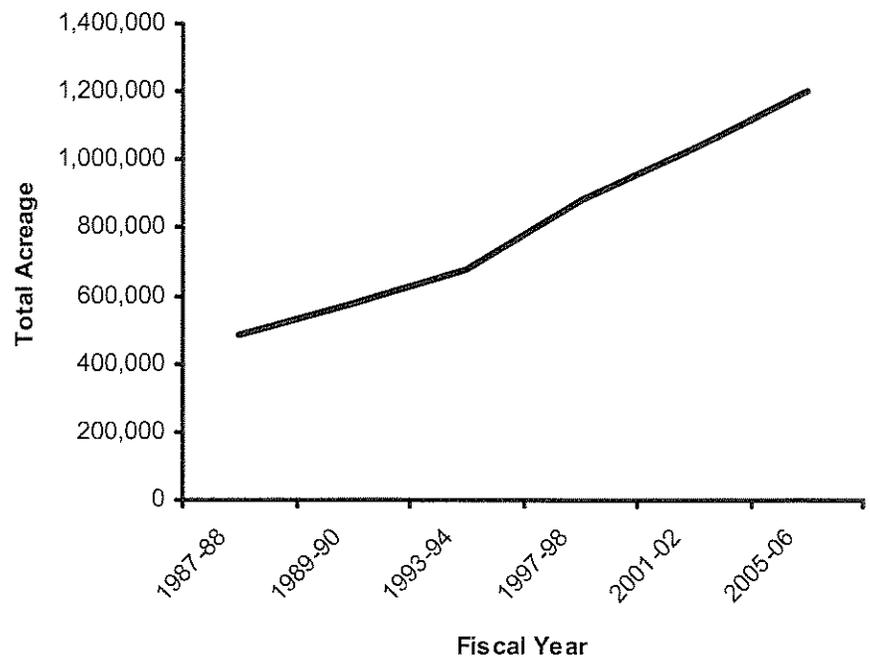
Tax increment financing is a growing drain on funds intended for public needs. It has confused and distorted state and local finance, resulting in a Byzantine maze of diversions, augmentations, pass-throughs and backfills that have short-changed both our schools and city services. These property taxes – \$4.1 billion annually – must be recaptured from private interests and restored to the public interest.

**TABLE 3.3**  
**Highest**  
**"Tax Increment Diverters"**

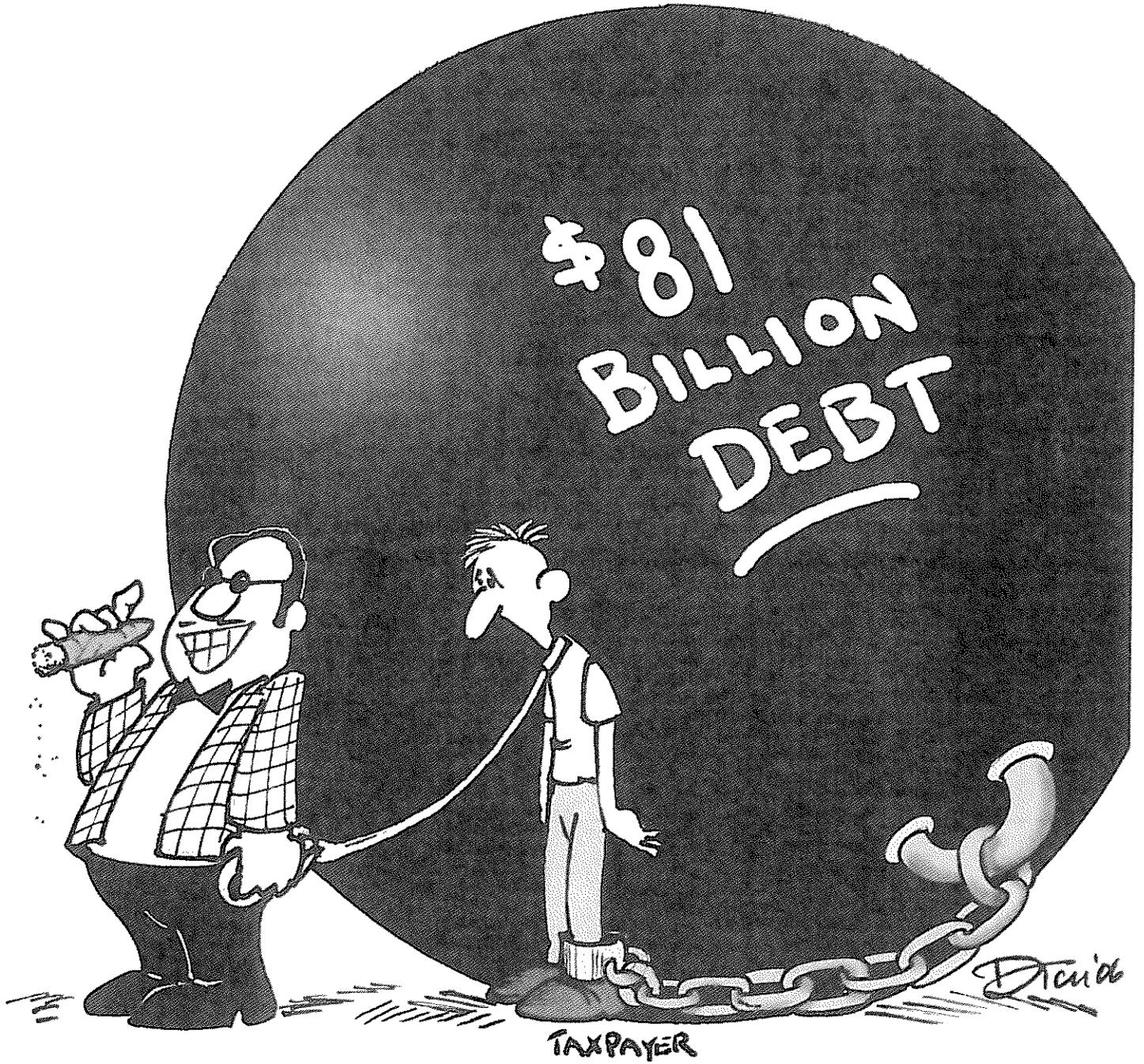
	City / Agency	Project Areas Total Valuation	"Increment"	% diverted to agency
1	Apple Valley	\$ 216,040,417	\$ 214,425,906	99%
2	Santa Clara	1,961,169,324	1,945,671,048	99%
3	Cerritos	2,751,968,587	2,728,055,452	99%
4	Seal Beach	139,940,548	137,989,565	98%
5	Walnut	2,061,190,550	2,016,287,682	97%
6	Foster City	1,645,086,436	1,602,421,436	97%
7	Palmdale	3,295,076,363	3,196,628,740	97%
8	Walnut Creek	326,024,815	312,565,327	95%
9	Claremont	395,510,619	377,570,460	95%
10	Rancho Cucamonga	6,459,463,110	6,160,078,754	95%

SOURCE: California State Controller's Report FY 2005-2006

**TABLE 3.4**  
**Total Acreage in Redevelopment Areas**



SOURCE: Report of the Commission on Local Governance for the 21st Century, page 112



## 4 — Debt: Play Now, Pay Later

**R**edevlopment agencies are debt machines that have amassed nearly \$81 billion in statewide bonded indebtedness.

By law, a redevelopment agency can receive property taxes only after it has first incurred debt. Property tax increment revenues may only be used to pay off outstanding debt. Debts may be in the form of bonds, accounts payable to developers or reimbursements to cities for operating expenses.

Debt is not just a temptation. It is a requirement.

That is why redevelopment hearings inevitably feature three groups of outside “experts”: the blight consultants, the lawyers and the bond brokers who help the agency incur debt so it can start receiving the tax increment.

The bond brokers and debt consultants are easily located. They are listed in the California Redevelopment Association Directory. From city to city they phone, fax, travel and make presentations to sell additional debt. Naturally, redevelopment staffs are supportive. More debt means job security and larger payrolls.

Currently, total redevelopment indebtedness in California is just under \$81 billion, a figure that is doubling every ten years (Table 4.1).

Debt levels vary widely among agencies, but all must have debt to receive the tax increment. Table 4.2 shows those cities with the highest total redevelopment indebtedness. Debt levels have no relation to actual blight, as many affluent suburban towns have higher indebtedness than older urban-core cities.

Table 4.3 shows outstanding indebtedness per capita.

This is the amount of per capita property taxes that must be paid to cover the principal

and interest of existing debt. This amount must be diverted from the cities, counties and school districts before these redevelopment agencies can shut down and restore the property taxes to actual public services.

**I**f redevelopment agencies really were successful in eliminating “blight”, they would now be scaling back their activities and reducing debt. In fact, redevelopment indebtedness is growing rapidly, draining investment dollars that could have gone to buy other government bonds or into the private sector.

There are two reasons redevelopment debt is so attractive. First, redevelopment agencies may sell bonded debt without voter approval. Unlike the state, counties, cities and school districts, the debts need not be justified to or approved by the taxpayers. A quick majority vote by the agency is all that is needed.

Second, bond brokers love to sell redevelopment debt. The commissions are high and the buyers plentiful. Since the debt is secured against future property tax revenue, they are seen as secure and lucrative. If an agency over-extends, then the city’s general fund will cover the debts.

Interest payments on bonds account for 20% of all costs — nearly \$1.2 billion in fiscal year 2005-06 (Table 7.1).

Bondholders and their brokers are profiting handsomely from redevelopment debt while pocketing property taxes that should go to public services.

**B**ond brokerage firms are among the biggest financial supporters of the California Redevelopment Association. They pay hefty

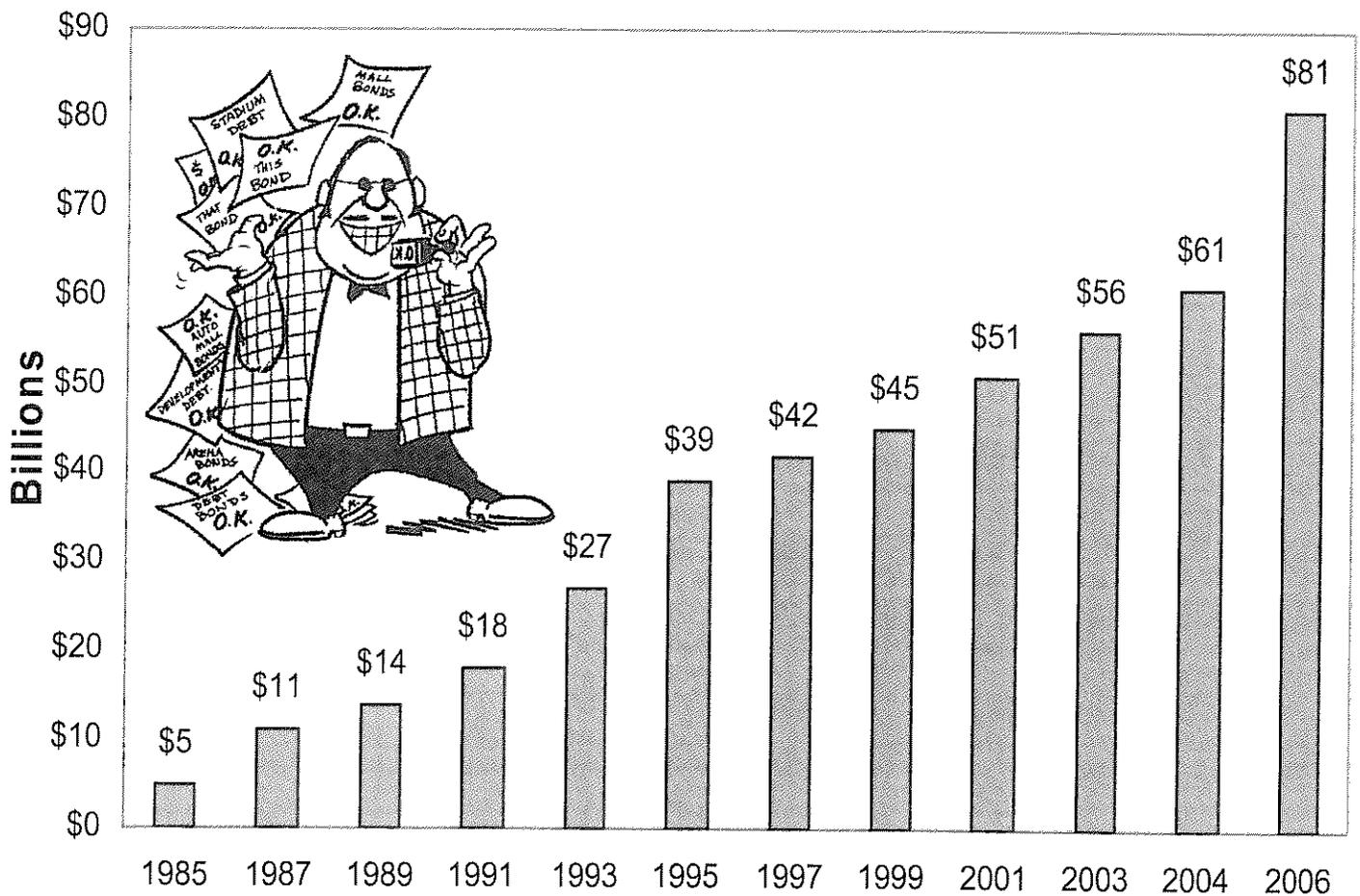
annual dues for its pricey lobbyists, sponsor the Annual CRA Conference and hold regional seminars instructing agency staff how to incur ever more debt.

Redevelopment debt has mortgaged California's future by obligating property taxes for decades to come. \$81 billion needed for future schools, infrastructure and public services has been committed to service redevelopment

debts. \$81 billion that should pay teachers and police officers is diverted to debt payments.

The only way to avoid these ballooning interest payments is for redevelopment agencies to stop incurring new debt, sell off existing assets and pay off existing principal as soon as possible. Chapter 12 explains how this can be achieved.

**TABLE 4.1**  
**Total Redevelopment Indebtedness Statewide**  
*(figures in billions)*



SOURCE: State Controller's Office.

**Table 4.2**  
**Top 12 California Cities by Total  
Redevelopment Indebtedness**

*(Includes outstanding principal and interest)*

City	Total Indebtedness FY 05-06
1 Oakland	\$5,550,978,669
2 San Jose	\$2,968,573,024
3 Fontana	\$2,775,923,664
4 La Quinta	\$2,727,769,724
5 Palm Desert	\$2,606,205,016
6 Victorville	\$2,582,635,329
7 Victor Valley *	\$2,365,044,899
8 Lancaster	\$2,181,511,374
9 Fairfield	\$1,985,293,704
10 Los Angeles	\$1,694,722,274
11 Palmdale	\$1,611,691,908
12 Industry	\$1,491,165,156

\* *Economic Development Authority* - Adelanto, Victorville,  
Apple Valley, Hesperia & San Bernardino County

**TABLE 4.3**

**Top 12 California Per-Capita Redevelopment Indebtedness by City**

*(Includes outstanding principal and interest)*

	Per Capita Indebtedness	City	Population	Total Indebtedness 2005-06
1	\$1,854,683	Industry	804	\$1,491,165,156
2	962,626	Vernon	96	92,412,066
3	144,639	Sand City	301	43,536,288
4	98,553	Irwindale	1,501	147,928,312
5	75,467	La Quinta	36,145	2,727,769,724
6	52,886	Palm Desert	49,280	2,606,205,016
7	41,164	Emeryville	8,261	340,053,271
8	40,813	Avalon	3,508	143,171,839
9	32,374	Indian Wells	4,781	154,781,578
10	29,866	Victorville	86,473	2,582,635,329
11	28,802	Culver City	40,870	1,177,123,723
12	22,004	Brisbane	3,724	81,943,609

SOURCE: *Community Redevelopment Agencies Annual Report, Fiscal Year 2005-2006*; State Controller's Office

## 5 — Corporate Welfare

The consultant has found the blight. The lawyers have drawn up the papers and defended the agency from suits. The bond brokers have created the debt to be paid by the tax increment that will surely flow.

Now should be the time to begin eliminating blight, as required by state law.

In reality, very little is ever heard again about blight. Redevelopment agencies are driven primarily by creating new revenue. Since most cities with redevelopment have little or no real blight anyway, creating new government revenues becomes their prime goal. They do so in two ways:

**Debt:** As we have seen, an agency incurs debt to be paid by future property tax diversions. In this way, it can perpetuate its own activities indefinitely by continuing to borrow.

**Sales Tax:** By promoting commercial development, a redevelopment agency tries to stimulate new sales taxes that benefit the city's general fund.

By state law, a city's sales tax share is 1% of all taxable purchases. Sales taxes are site-based. If you live in Sacramento and buy a car in Folsom, all of the sales tax share from the car will go to Folsom, none to Sacramento.

Sales taxes account for an average of 26% of city general fund revenues, so cities have long been motivated to attract retail development. City officials and chambers of commerce have touted their location, city services and access to markets. New department stores and auto dealers have long been greeted with ribbon cuttings and proud announcements in the local paper.

Redevelopment has escalated this to a new level.

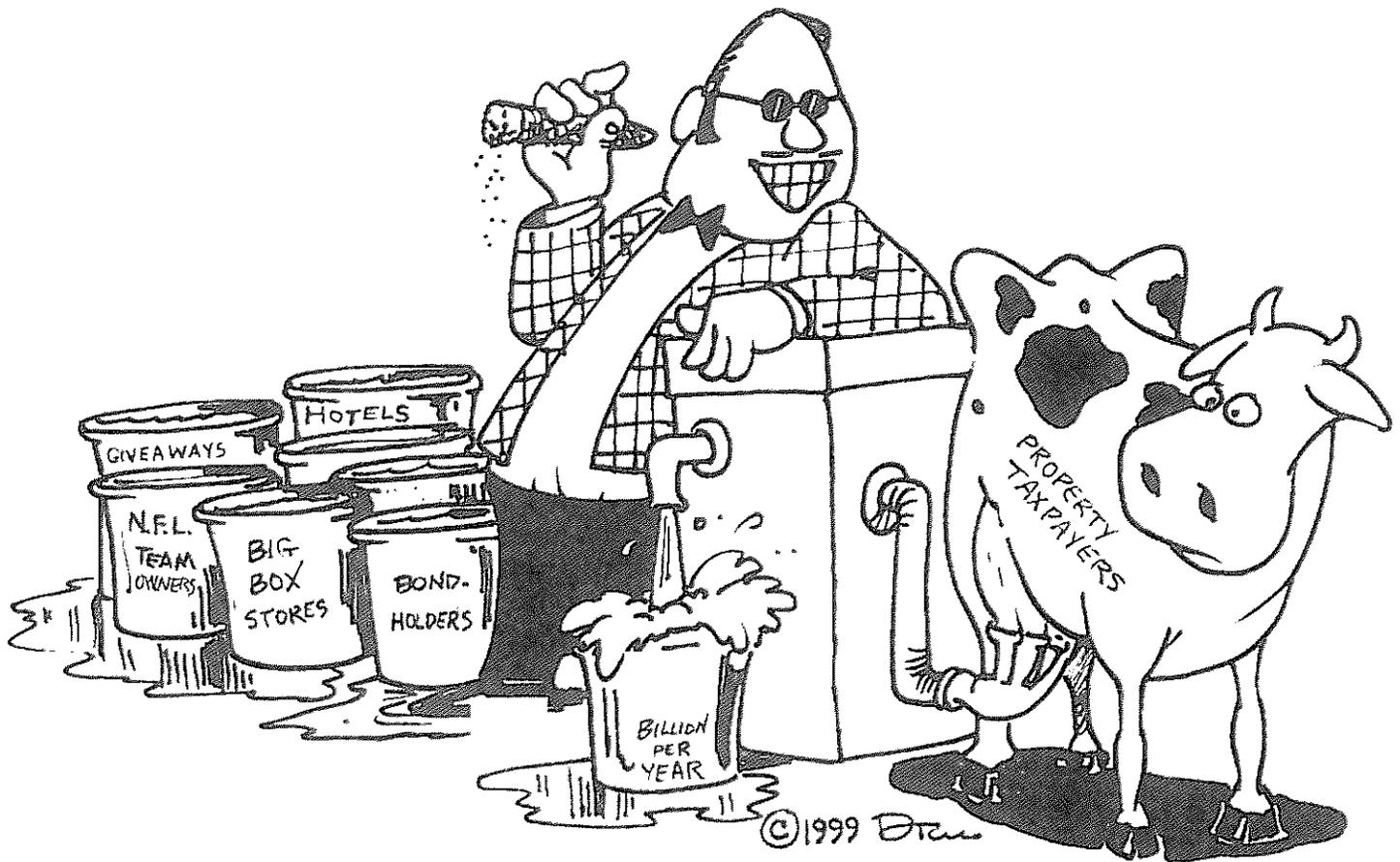
With redevelopment, cities have the power to directly subsidize commercial development through cash grants, tax rebates or free land. Spelled out in a Disposition and Development Agreement (DDA), a developer receives lucrative public funding for projects the agency favors. Some receive cash up front from the sale of bonds they will never have to repay. Others receive raw acreage or land already cleared of inconvenient small businesses and homes. They purchase the land at a substantial discount from the agency. Sometimes it is free.

Redevelopment subsidies are not distributed evenly. Major developers, NFL team owners, giant discount stores, hotels and auto dealers receive most of the money. Small business owners now must face giant new competitors funded by their own taxes.

Public funds are also used for glitzy new entertainment centers open only to the affluent, replacing perfectly good private facilities at great cost.

L.A.'s Staples Center (tax subsidy: \$50 million) moved the Kings and Lakers out of Inglewood, leaving the Forum empty. As part of a new Highland/Hollywood Mall (tax subsidy: \$98 million) the new Kodak Theater stole the annual Academy Awards ceremonies from the historic Shrine Auditorium, which had long hosted the event at no public cost and held twice the capacity.

Redevelopment has accelerated the centralization of economic power among ever-fewer corporate chains at the expense of locally-based independent businesses. Asserts Larry Kosmont of Kosmont & Associates, a veteran redevelopment consultant and prominent CRA member, "Costco, Wal-Mart and other sales-tax generators are king of the highways and will get whatever they want."



An *Orange County Register* study showed Costco receiving over \$30 million in subsidies in Orange County alone, extrapolated to \$300 million statewide. Wal-Mart has gotten over \$1 billion in public handout nationwide, with an estimated \$100 million in California.

This costly distortion of the free enterprise system is justified as the only way to boost local sales taxes (ending “blight” has, by now, been long forgotten). Yet, if new developments are justified by market demand, they will be built anyway. If not, they will fail, regardless of the subsidies.

Pro sports also profit from lavish subsidies. The Raiders got \$7 million from Irwindale just for opening negotiations on a new stadium site (never built). In 1995, the Raiders returned to Oakland, lured by \$94 million in public subsidies. The Chargers have gotten \$134 million in seat guarantee pay offs courtesy of San Diego taxpayers.

L.A. politicians have been decidedly cooler to the hefty subsidies demanded by the NFL for an expansion team, which ultimately went to Houston. So, the nation’s second largest media market has no pro football team. Few Angelenos seem to care.

Redevelopment agencies spend \$4.6 billion annually, mostly to subsidize purely private economic activity. Money needed for classrooms goes to Costco. Instead of building hospitals, agencies build Wal-Marts. Instead of paying for emergency rooms and libraries, agencies pay NFL owners and car dealers.

Redevelopment has become a massive wealth-transfer machine. Cash and land go to powerful developers and corporate retailers, while small business owners and taxpayers must foot the bill.

## 6 — Sales Tax Shell Game

A drive north on the Santa Ana Freeway (I-5) from Disneyland toward L.A. reveals the chaos redevelopment has wreaked. There is the Buena Park Auto Square, built around dealerships lured from nearby Fullerton. Just north is the old Gateway Chevrolet site. Where did it go? Just across the county line to La Mirada, which lured it from Buena Park with its own publicly-financed auto mall (on land conveniently designated as “blight”).

Still further north is another auto mall in Santa Fe Springs, with numerous long-vacant parcels waiting for the dealerships that will never come. To the west is Cerritos, whose giant redevelopment-funded “Auto Square” became a pioneer in auto dealer piracy, draining off dealerships — and sales tax revenue — from its neighbors. Nearby Lakewood lost so many car dealers that its city manager labeled Cerritos the “Darth Vader of cities”.

Drive any stretch of freeway in San Diego, Los Angeles, Santa Clara or other urban counties and you’ll see redevelopment-funded auto malls, with their hopeful reader boards and carefully graded — and vacant — dealer sites. They’re the product of a bitter fiscal free-for-all, as cities coax each other’s dealerships away with ever-sweeter giveaways.

Car dealers, of course, are loving it. They no longer have to make a profit from mere customers. They can now play one city off against another for cheap land, tax rebates and free public improvements. You can’t blame them. But you can blame the laws that encourage this shell game.

The same pattern is repeated with department stores, discount chains, home improvement centers, professional sports franchises and even gambling casinos. Corporate decisions once based on market

forces are now determined by which city’s redevelopment agency will cut the best deal.

Costco played off Morgan Hill against Gilroy for the highest public subsidy, finally settling for \$1.4 million in tax hand-outs from Gilroy. “They played us against someone else to get a better deal,” said Planning Director William Faus (*San Jose Mercury-News*, August 6, 2002).

The expected big box sales tax bonanza rarely materializes, however, as they increasingly sell non-taxable food. More Costcos and Wal-Marts mean fewer Ralphs and Safeways. Non-grocery retailers, too, suffer from subsidized competition, as K-mart and Toys-R-Us have closed hundreds of stores. There is no economic development, only a costly shifting of customers within the same market area.

The rush for sales taxes has caused cities to favor commercial development over all other land uses (Table 6.1). This fiscalization of land use offers incentives to giant retailers, while discouraging new housing and industry. It favors consumption while discouraging production, all in the name of economic development.

The California Redevelopment Association (CRA) encourages retail developers to expect public handouts. The CRA regularly co-hosts conferences with the International Council of Shopping Centers (ICSC) where retailers and mall promoters shake down city officials for handouts.

“California has more than 300 redevelopment agencies,” gushes the ICSC magazine *Shopping Centers Today*. “Unlike smokestack industries and manufacturing plants, retail development is a source of clean revenue for cities” (“ICSC Forges Public/Private Partnerships,” May 2001.)



**“What’ll ya bid for this auto dealership?”**

This pro-retail/anti-industrial bias pervades redevelopment promoters. They value low wage retail jobs at the expense of high paying manufacturing jobs. They value people only as consumers, not as skilled workers. They value consumption at the expense of production.

Per capita sales tax revenues vary widely from city to city (Table 6.2). Affluent suburban ring cities get more than older urban-core cities that need it the most. Largely minority cities are hit hardest by sales tax inequality. Redevelopment has added to these distortions as cash-flush suburban cities lure retailers out of the poorer inner city.

In *California Cities and the Local Sales Tax* (Public Policy Institute of California, San Francisco, 1999), researchers Paul Lewis and Elisa Barbour show how the sales tax bias has skewed local decision making and how the billions in redevelopment subsidies have failed to expand sales tax revenues: “From the 1970’s to the 1990’s, sales taxes, measured in real

dollars per capita, were a fairly stagnant source of funds” (page xiii).

Even as personal incomes grew rapidly in the halcyon ‘90s, sales tax revenues remained flat. An aging California population is investing more of its money or spending it on health care, travel and personal services, none of which is subject to sales tax.

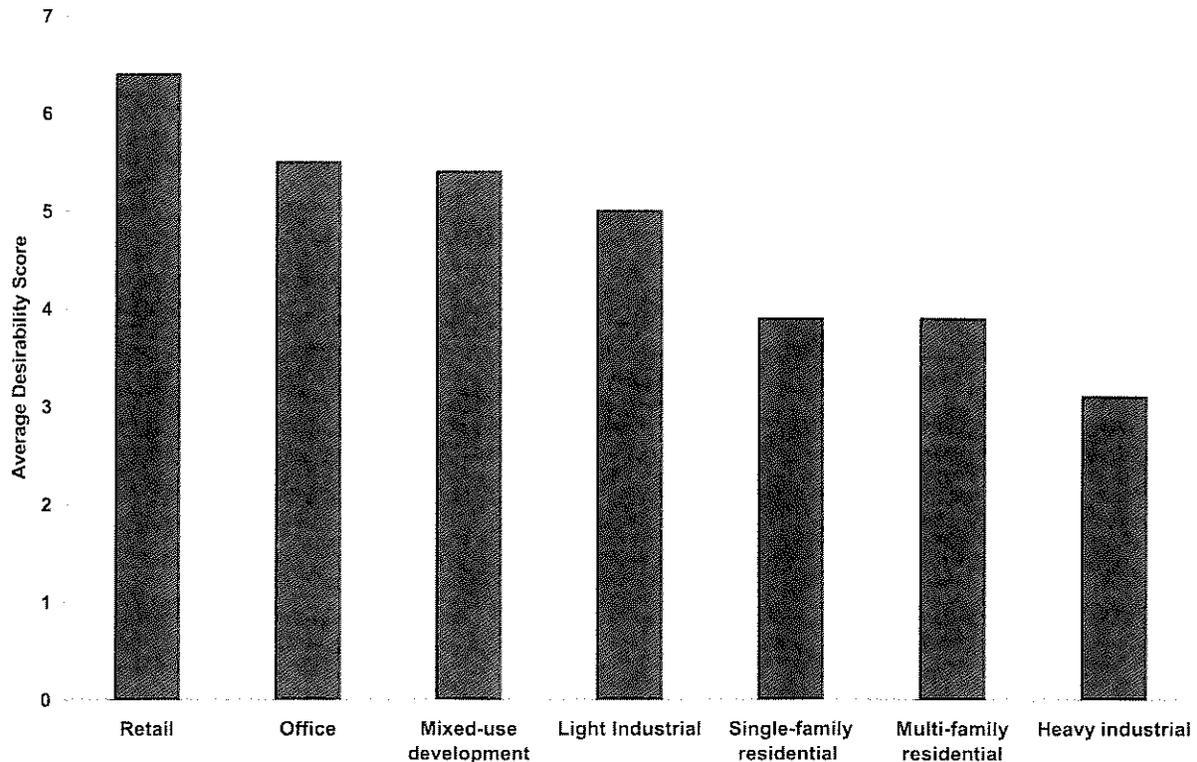
Internet commerce, too, will cut into future sales tax revenues. Burgeoning interstate online purchases are sales tax exempt by federal law, and taxes on in-state purchases are difficult to collect.

These factors make it unlikely that the huge public subsidies poured into retail businesses will ever pay back the new sales taxes so touted by redevelopment boosters.

State leaders are finally focusing on the need for sales tax reform. The “fiscalization of land use” promoted by redevelopment practices now show signs of being addressed.

AB 178 was sponsored by Assemblyman

**TABLE 6.1**  
**Relative Desirability of Various Land Uses**  
**in Redevelopment Areas, as Viewed by City Managers**



SOURCE: PPIC, *California and the Local Sales Tax*, page 77.

(The Public Policy Institute of California conducted a survey of 471 City Managers, 330 of whom responded.)

Tom Torlakson (D-Martinez) and signed into law in 1999 by Governor Davis. It requires any city or agency that uses public money to lure a business away from a neighboring city to reimburse that city for half the sales taxes lost, over a 5-year period.

Proposition 11, passed in 1998, allows neighboring cities to enter into regional sales tax sharing agreements. This would stabilize revenues and end bidding wars for retailers. With so many cities packed into certain urban counties (Los Angeles County has 88 cities), however, it is difficult for cities to work out such agreements on their own.

A more far-reaching reform would be to replace the point-of-sale to a per capita sales tax disbursement. This would create a more equitable distribution of public revenue, and

completely end costly competition over major retailers.

The Public Policy Institute's sales tax study indicated that 59.5% of the state's population live in cities and counties that would be better off in a per capita system, especially residents of older cities.

Newspapers as diverse as the *L.A. Times* and *Orange County Register* have editorially supported sales tax reform.

Then-Speaker Antonio Villaraigosa's Commission on State and Local Government Finance proposed replacing half the cities' and counties' sales tax share with more stable property tax revenues.

In 1999, Controller Kathleen Connell's State Municipal Advisory Reform Team (SMART) issued its recommendations, including a phased-

in per capita sales tax disbursement system over 10 years that would assure cities and counties a greater share of property taxes.

A move away from sales tax reliance will restore fiscal rationality to local government and balance to land use decisions. It will also undercut the leading rationale for redevelopment agencies.

With assured and stable revenues, cities will cease subsidizing retail and treat residential and industrial uses more fairly. With a greater share of the property taxes for their general funds, cities will be loathe to divert them into their redevelopment agencies.

A return to common sense in local government finance will end the irrationality that redevelopment has created.

**TABLE 6.2**  
**Annual Per-Capita Sales Tax Revenues: Selected Cities**

City	Per Capita Sales Tax
<i><b>Affluent Suburban Cities (25,000-100,000)</b></i>	
Beverly Hills	\$523
Cerritos	\$485
Brea	\$370
Palm Desert	\$307
Palo Alto	\$288
Carlsbad	\$275
Pleasanton	\$274
Campbell	\$228
Mountain View	\$195
<b>Statewide Average</b>	<b>\$140</b>
<i><b>Older Urban Core Cities (over 150,000)</b></i>	
Stockton	\$140
Santa Ana	\$111
Los Angeles	\$94
Long Beach	\$93
Oakland	\$87
Pomona	\$78
<i><b>Predominantly African-American Cities</b></i>	
Inglewood	\$71
East Palo Alto	\$51
Compton	\$49
<i><b>Predominantly Hispanic Cities</b></i>	
Stanton	\$87
Coachella	\$68
Pico Rivera	\$61
Maywood	\$24
Parlier	\$16

SOURCE: State Controller's Office / All Figures: Fiscal Year 2003-2004

## 7 — Follow the Money

Redevelopment backers claim they are eliminating blight and cleaning up urban California, but the money trail tells a very different tale.

Table 7.1 shows where and to whom the money is flowing.

Just under \$6 billion in public money was spent by all California redevelopment agencies (F.Y. 2005-06), according to the most recent State Controller's Report. This includes both funds from property taxes and bond sale proceeds.

By far the largest expenditure (34.6%) by redevelopment agencies is the repayment of bonds. Just over \$2 billion was paid to bondholders in Fiscal Year 2005-06. Of that, more than half (56%) went to pay interest. This is a very high price to pay for very marginal results. It is a powerful incentive for bond brokers to keep selling debt to redevelopment agencies.

While redevelopment apologists claim to be "rebuilding" our cities, barely 22% went for actual real estate development, and another 7% for land acquisition, much of it still vacant.

Significantly, \$721 million — 12% — was spent on administration, most of it for redevelopment staff salaries. This provides a lucrative bureaucratic base that redevelopment staffers seek to preserve and expand.

By law, 20% of all redevelopment funds must be spent on low cost housing (see Chapter 9), but just over 2% is actually spent on housing subsidies. Redevelopment agencies would much rather attract new retailers than residents.

The California Redevelopment Association has tried to disavow these figures and has attacked this publication by name for providing them. But the numbers in the 2005-06 Controller's Report were all submitted by the agencies themselves. Table 7.1 represents a comparison of the major categories.

They are testimony to the waste and ineffectiveness of redevelopment. They are grim evidence of who really profits from it.

Definitely not the people of California.

**Debt Payments**

**Real Estate Development**

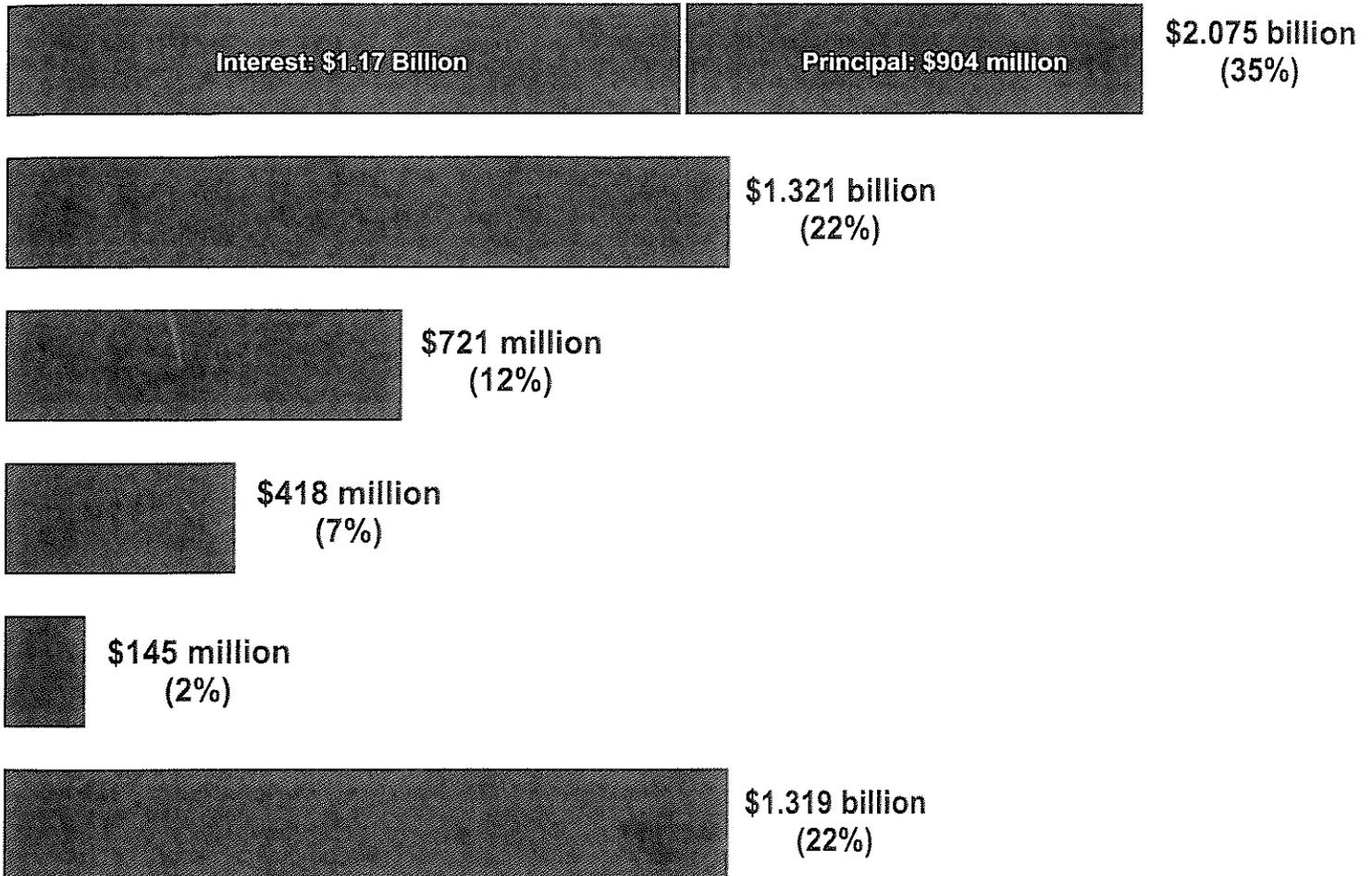
**Administration**

**Property Acquisitions**

**Housing Subsidies**

**Other**

**TABLE 7.1**  
**Total Redevelopment Expenditures by Category**



SOURCE: *Community Redevelopment Agencies Annual Report, Fiscal Year 2005-2006*, California State Controller's Office, Table 4, Page 247. **Debt Interest Payments** include Interest Expense: \$1,094,960,574 and Debt Issuance Costs: \$76,338,927. Total: \$1,171,299,501. **Debt Principal** includes Tax Allocation Bonds: \$458,982,099., Revenue Bonds: \$141,702,700., City/County Loans: \$207,753,689., Other Long-term Debt: \$95,586,356. Total: \$904,024,844. **Real Estate Development** includes Site Clearance Costs: \$7,237,904., Planning Survey & Design: \$49,651,673., Project Improvement/Construction Costs: \$1,109,901,191., Disposal Costs: \$5,243,148., Loss on Disposition of Land Held for Resale: \$39,967,832., Decline in Value of Land Held for Resale: \$18,028,747., Rehabilitation Costs/Grants: \$90,838,690. Total: \$1,320,869,185. **Administration** includes Administrative Costs: \$557,167,038. and Professional Services: \$120,178,147., Operation of Acquired Property: \$43,465,065. Total: \$720,810,250. **Property Acquisitions** include Real Estate Purchases: \$278,298,544., Acquisition Expense: \$26,562,222., Relocation Costs/Payments: \$28,841,221., Fixed Asset Acquisitions: \$84,625,730. Total: \$418,327,717. **Housing Subsidies** include Subsidies to Low & Moderate Income Housing: \$145,094,608. **Other** includes Other Expenditures: \$1,319,449,411.

## 8 — The Myth of Economic Development

“Economic Development” is a common cliché among city governments and redevelopment agencies.

It refers to a belief that tax subsidies to selected private businesses can stimulate the local economy. It assumes that the free enterprise system alone is inadequate. It presumes that government planners can allocate resources more efficiently than can the free market.

The legal purpose for redevelopment remains the elimination of blight. All economic development activities must pay lip service toward that goal. Behind this façade, redevelopment has subsidized giant retailers, luxury hotels, golf courses, stadiums and even gambling casinos.

Is there any evidence that redevelopment has promoted economic development in blighted areas?

No.

The first systematic statewide analysis of redevelopment agencies was published by the prestigious Public Policy Institute of California in 1998, entitled *Subsidizing Redevelopment in California*. Veteran researcher Michael Dardia compared 114 different redevelopment project areas to similar neighborhoods outside of redevelopment areas, from 1983 to 1996.

The report concluded that redevelopment activities were not responsible for any net economic growth or increase in property taxes, and that they were a net drain on public resources. As the report’s title suggests, Dardia concluded that redevelopment was being subsidized by taxes drained from the schools, the state and special districts.

In his research, Dardia had the full cooperation of the California Redevelopment Association, which approved his methodology

and confirmed his data. When his conclusion was reached, however, the CRA blasted the report and tried to have it buried. Yet it cannot refute the emerging truth: redevelopment does not work.

Similarly, the *Los Angeles Times* (January 30, 2000) published a detailed study showing the North Hollywood Redevelopment Project Area’s 20-year, \$117 million effort had produced no net benefits for the community.

The *Times* compared North Hollywood to ten other socio-economically comparable areas in Los Angeles that had no redevelopment, including Van Nuys, Mar Vista and Venice. “Although they received no redevelopment money, most of the comparison areas registered improvements in income and poverty rates equal or better than the heavily funded North Hollywood project area,” the report concluded.

Census data confirm the conclusions of the Public Policy Institute and *Los Angeles Times*. A 10-year comparison (1979-1989) of redevelopment and non-redevelopment cities shows no net per-capita income gains due to redevelopment activity (Table 8.1).

Pairing similar cities by area, size and income, shows those without redevelopment posted greater gains in living standard than those with redevelopment (Table 8.2).

Redevelopment’s extreme bias in favor of retail and against industry has created low wage jobs at the expense of skilled workers. It subsidizes big box stores selling largely imported goods at the expense of American manufacturing jobs.

Especially hit are minority communities. Historically black Inglewood lost nearly \$1 million in annual tax revenues when it lost the Kings and Lakers to the redevelopment-subsidized Staples Center. City staff tried to bar a Latino-oriented Gigante supermarket from an Anaheim redevelopment zone because it was “too ethnic”. Largely Hispanic and Black cities have been big losers in the struggle for equitable sales taxes (Table 6-2).

Redevelopment apologists and lobbyists counter with pretty pictures of new stadiums and shopping malls. Surely, with all the money spent, some nice new buildings have been completed. But their evidence of success is purely anecdotal. The evidence of failure is in the numbers. All objective comparison studies have shown that aggregate statewide

redevelopment activity does NOT generate economic development and does NOT eliminate blight.

State auditors have also shown that California’s enterprise zone program gave \$262 million (FY 2003-04) in business tax breaks to connected corporations without any appreciable economic benefit to depressed areas.

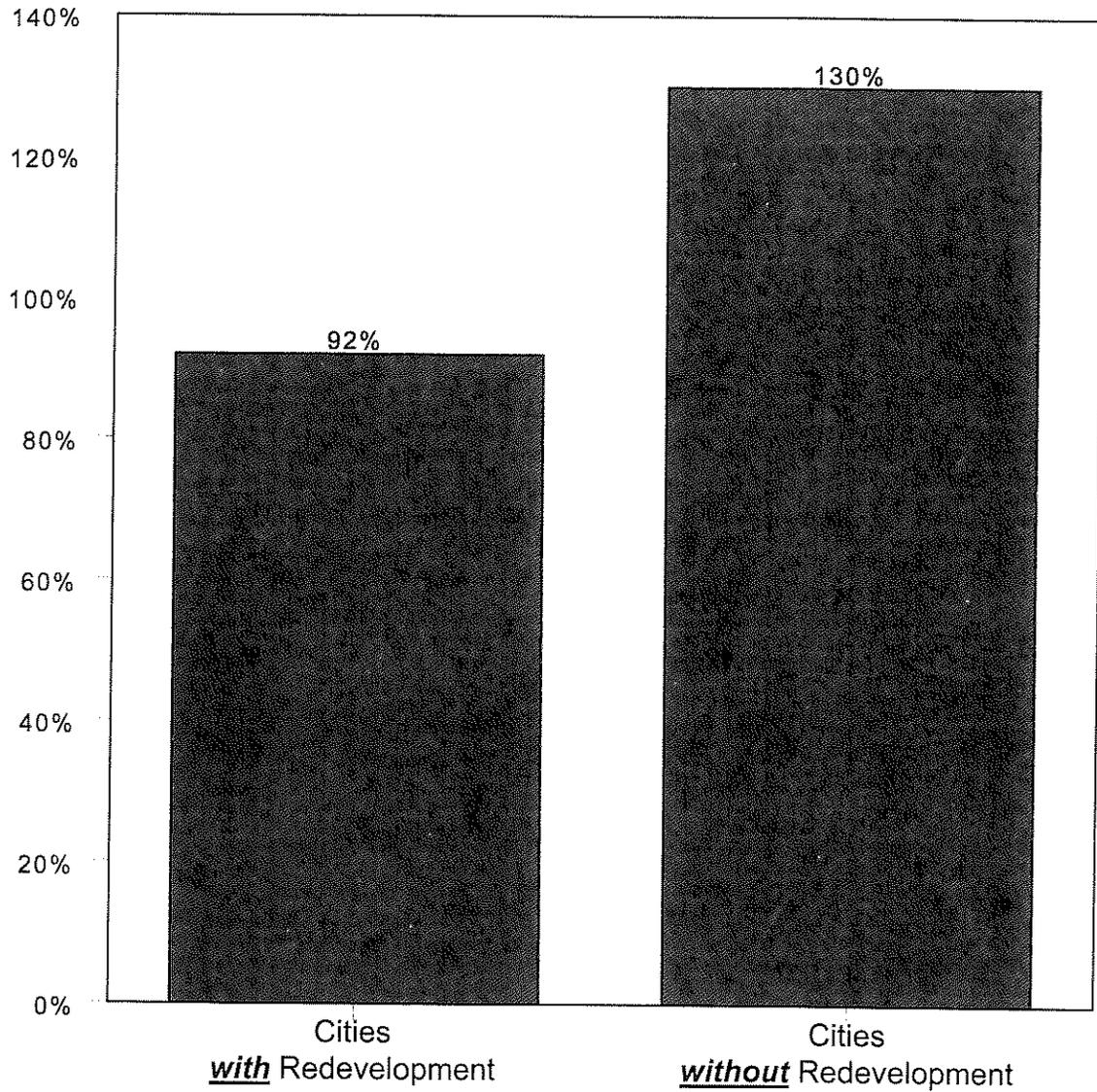
This should come as no surprise even to the most ardent redevelopment boosters. Everywhere in the world, those countries that respect property rights and free consumer choice outperform those that place economic decisions in the hands of bureaucrats and politicians.



**“Isn’t economic development great?”**

TABLE 8.1

Per Capita Income Growth  
Redevelopment vs. Non-Redevelopment Cities



This survey reflects the 313 cities with redevelopment agencies, and the 101 cities without redevelopment agencies, from 1979-89. Cities incorporated after 1979 are not included.

SOURCE: United States Census Bureau, State Controller.

**TABLE 8.2**  
**Personal Income Growth Comparison Between**  
**Cities With and Without Redevelopment**

*A Region-by-Region Per-Capita Income Growth Survey  
Among Cities of Comparable Size and Socio-Economic Levels, 1979-1989*

**LOS ANGELES BASIN:**

Status	City	1979	1989	Growth
NO Redevelopment	<b>Gardena</b>	\$7,911	\$14,601	<b>85%</b>
HAS Redevelopment	<b>Hawthorne</b>	\$8,097	\$14,842	<b>83%</b>
NO Redevelopment	<b>Artesia</b>	\$6,520	\$12,724	<b>95%</b>
HAS Redevelopment	<b>Inglewood</b>	\$6,962	\$11,899	<b>71%</b>

**BAY AREA:**

Status	City	1979	1989	Growth
NO Redevelopment	<b>Benicia</b>	\$9,312	\$20,663	<b>122%</b>
HAS Redevelopment	<b>Alameda</b>	\$9,288	\$19,833	<b>114%</b>

**CENTRAL VALLEY:**

Status	City	1979	1989	Growth
NO Redevelopment	<b>Lodi</b>	\$7,691	\$14,638	<b>90%</b>
HAS Redevelopment	<b>Chico</b>	\$6,065	\$10,584	<b>74%</b>

**SMALL CITIES:**

Status	City	1979	1989	Growth
NO Redevelopment	<b>Etna</b>	\$4,812	\$9,333	<b>94%</b>
HAS Redevelopment	<b>Industry</b>	\$4,539	\$7,853	<b>73%</b>

SOURCE: U.S. Census Bureau, California State Controller's Office

## 9 — Housing Scam

By state law, redevelopment agencies must spend 20% of their budgets on housing. This housing set-aside fund was intended to improve the quality and expand the supply of low cost housing.

In reality, however, most agencies resist spending money on new housing. When they do, the funds are often squandered on high-cost projects that enrich developers and often displace more people than they house.

When Anaheim “improved” its working class Jeffrey-Lynne neighborhood, it forced existing apartment owners to sell to Southern California Housing Corp. Half of the units were demolished, over 400 tenants evicted and those that remained saw their rents doubled. Public subsidy: \$54 million.

The Brea Redevelopment Agency demolished its entire downtown residential area, using eminent domain to force out hundreds of lower-income residents. Much of its housing money has since been spent on mixed-use projects that are really more commercial than residential. The agency gave \$649,000 in housing funds to a largely retail development that will include only eight loft apartments. Earlier, Brea allocated \$30 million in housing funds for a street widening.

Many other agencies find creative ways to “launder” their housing money into commercial and other uses.

Indian Wells certainly does not want any working-class people in its gated city of mansions and golf courses. The Indian Wells Redevelopment Agency repeatedly tried to transfer all of its housing funds to nearby Coachella, a largely poor Latino community. The State Department of Housing and

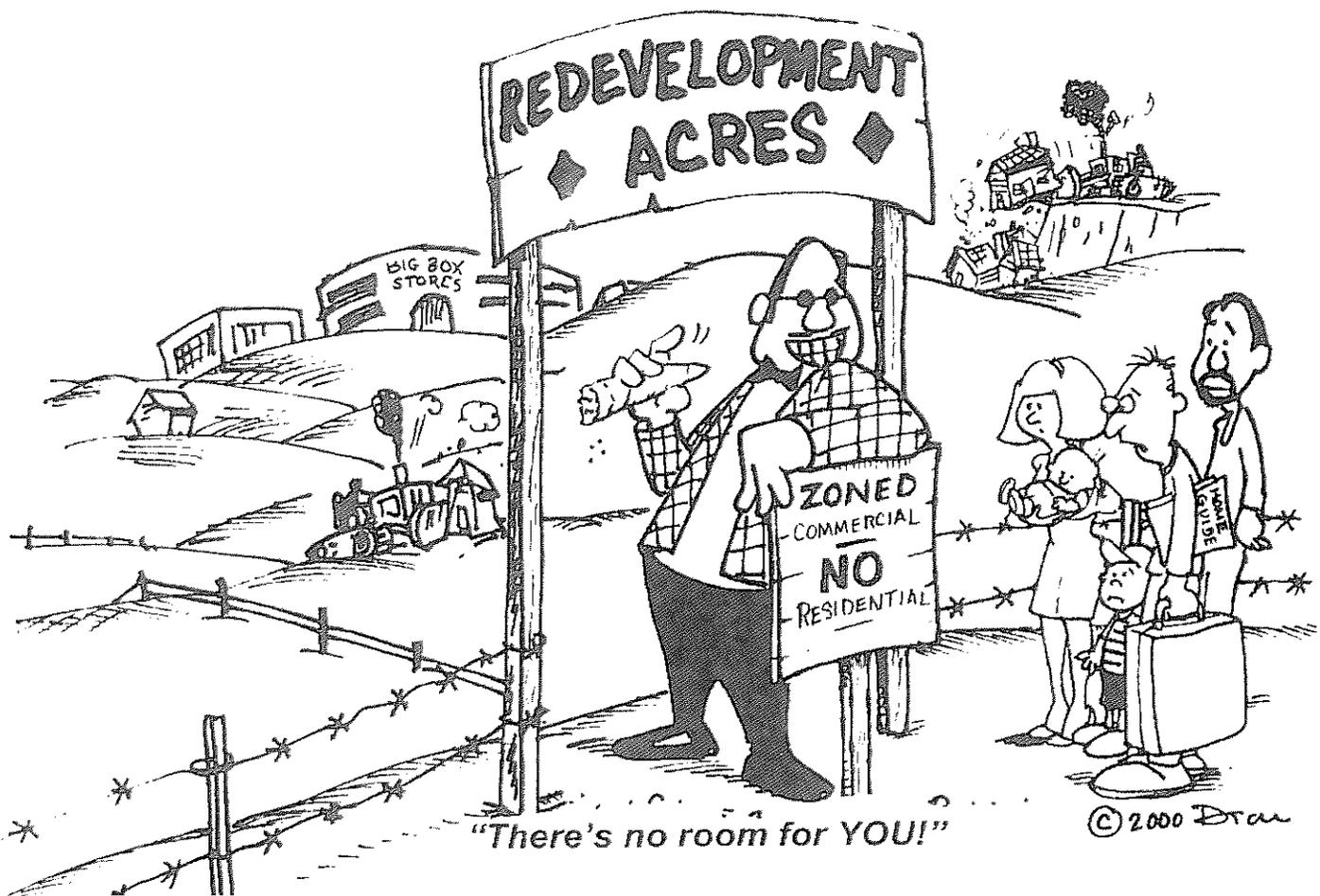
Community Development has since ruled the transfer is illegal, that “Indian Wells has the obligation to use 20% of its annual property tax increment for affordable housing within its borders. Indian Wells has used redevelopment funds to build upscale hotels and golf courses that employ many low wage workers who are without affordable housing because it shirks its responsibility.”

Many cities simply refuse to spend any of the required 20% on housing. The City of Industry’s aggressive use of redevelopment has built shopping malls and auto plazas, yet not one new housing unit has been built there in the agency’s history.

Despite the 20% requirement, the 2005-2006 State Controller’s Report summary (page 247) shows roughly 2% was spent on housing subsidies.

The California Redevelopment Association has long lobbied the legislature for the elimination of the housing requirement. Housing advocates have been able to keep the 20% mandate but have come to realize that it has done nothing to help low-wage earners or expand low-cost housing. Like much else in redevelopment, the original intent has been ignored.

“Local governments are penalized for housing and rewarded for other things,” states William Fulton, editor of *California Planning and Development Report*. “Many cities don’t want to accommodate housing.”



The real effect of redevelopment has been to increase housing costs statewide. To make up for losses to redevelopment property tax takeaways, school districts have levied new fees on residential development. Cities are happy to subsidize infrastructure for retail centers, then shift the burden to new housing. Commercial developments are subsidized, while residential developments face rising fees for streets, sewers, water and schools, often far beyond their direct impact.

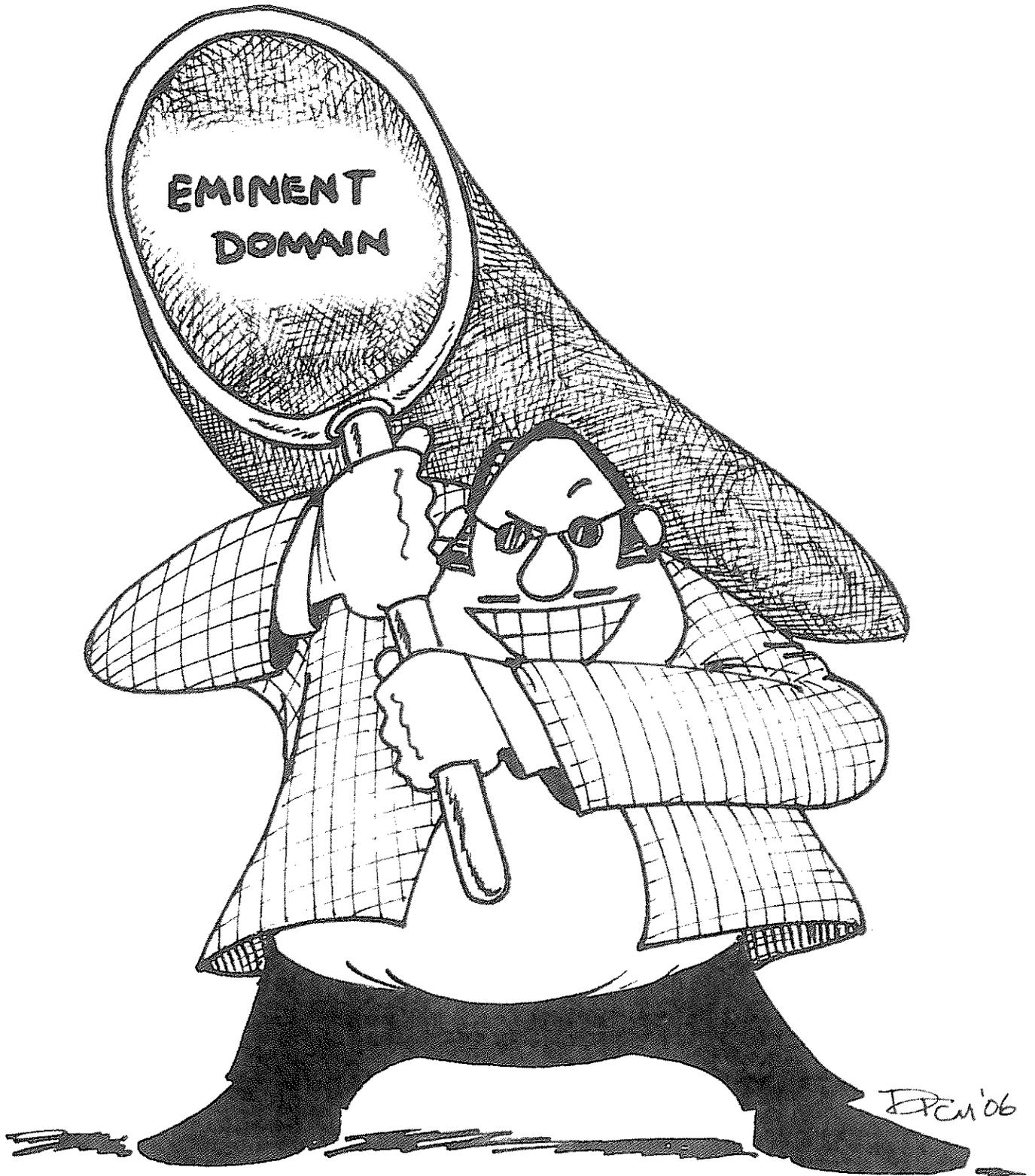
The fiscalization of land use ties up too much property in commercial zones, thus keeping out needed housing. The actual redevelopment-funded housing that is built may gentrify an area, but the poor residents are simply shifted elsewhere.

Often the poor have nowhere to go at all. Describing L.A.'s Skid Row homeless the *Catholic Worker's* Jeff Dietrich writes, "They are here as a result of the city's redevelopment

policy, which over the years has slipped billions of tax dollars into the pockets of rich developers while systematically stripping the urban core of its lowest cost housing."

A shift away from sales tax reliance to property tax would be a first step in more affordable housing. Cities would be rewarded for maintaining quality residential areas, rather than simply luring more retail. New homes would not be spurned as a burden but welcomed as new property tax contributors.

This will happen if cities rely less on sales taxes and receive a greater share of local property taxes. But these new property taxes must be spent on infrastructure and public safety and not siphoned away by redevelopment agencies. In the meantime, redevelopment remains an unneeded extra layer of government, which has only added to housing costs statewide.



***"I want your homes, businesses, churches, farms..."***

## 10 — Eminent Domain for Private Gain

“Nor shall private property be taken for public use without just compensation.” Thus the Bill of Rights specifies the only purpose for eminent domain: “public use.”

Since then, government has used eminent domain to acquire land for public use. Roads, schools, parks, military bases and police stations were essential public facilities that took priority over individual property rights. Private real estate transactions, on the other hand, were always voluntary agreements between individuals.

Redevelopment has changed all that.

Under redevelopment, “public use” now includes privately owned shopping centers, auto malls and movie theaters. “Public use” is now anything a favored developer wants to do with another individual’s land. Eminent domain is used to effect what once were purely private transactions.

In a typical redevelopment project, a developer is given an “exclusive negotiating agreement,” or the sole right to develop property still owned by others. Once such an agreement is made, small property owners are pressured to sell to the redevelopment agency, which acquires the land on behalf of the developer. If refused, the agency holds a public hearing to determine “public need and necessity” to impose eminent domain. By law, this must be an impartial hearing. In reality, the agency has already committed itself to acquire the property for the developer; so the outcome is certain.

Whole areas of cities have been acquired, demolished and handed over to developers to recreate in their own image. Historic buildings, local businesses and unique neighborhoods are replaced by generic developments devoid of the

special flavor that once gave communities their identities.

Typical is the experience of Anaheim. Having demolished its historic central business district in the mid-1970’s, the redevelopment agency recently hired consultants to help restore the identity of a downtown that no longer exists. “The complete eradication of the traditional business district has left nothing for the community to relate to as their downtown,” admits an internal city memo.

“Redevelopment means the bulldozers are coming,” said Jack Kyser, chief economist for the Los Angeles County Economic Development Corp., (January 30, 2000, *L.A. Times*). “A lot of time you displace business. Once you do that it’s tough to replace them.”

Small property owners have little chance to participate in redevelopment projects. Consultants and redevelopment planners prefer to work with one huge parcel under a single ownership. Entrepreneurs and homeowners just get in the way.

Historically black communities are particularly hard hit by displacement. In her pioneering book *Root Shock* (2004) Dr. Mindy Fullilove traces the cumulatively devastating impact on African-Americans of urban redevelopment schemes from the 1940’s to the present. She writes:

Sometimes I just stand here and the tears come down, thinking about what used to be. What used to be: houses not buildings, neon not vacant lots, neighborhood not emptiness...In every city, where I was studying the effects of urban renewal, I asked people, “What was it like before urban renewal.”

Typically, it is small family-owned businesses that are targeted for eminent domain. The Veltri family ran a popular Italian

restaurant for years in downtown Brea. Forcibly acquired and demolished by the agency, a Yoshinoya Beef Bowl now stands in its place. Across the street, the Vega family saw its service station condemned and demolished to make way for a brew-pub.

For 40 years, family-owned Belisle's stood at the corner of Harbor and Chapman, famed for generous portions of homestyle cooking and 24-hour service. The Garden Grove Redevelopment Agency then seized the property for a developer who built an Outback Steakhouse. Belisle's was demolished and never found another location.

Ralph Cato saw his Fresno home condemned to provide land for a Roxford Foods turkey processing plant, which went bankrupt a few years later. Cato never got his house back.

The Lancaster Redevelopment Agency used eminent domain to seize a 99 Cents Only Store to give the site to a Costco.

Churches, too, are targets of eminent domain. The Cypress Redevelopment Agency condemned Cottonwood Christian Center's property for a new Costco.

Even public health facilities are declared blighted for private party eminent domain seizures. In 2003, the Santa Ana Redevelopment Agency condemned an Orange County Health Facility housing over 200 restaurant inspectors. The property was turned over to a BMW dealership. The agency's logic: public health is blight; selling more German cars is economic development.

The CRA touts the aggressive use of eminent domain in its monthly *Redevelopment Journal*. A September 1999 article, with the ironic headline "Eminent Domain Helps Citizens," boasts "Wells Fargo Bank was one of the existing tenants of the Los Altos Shopping Center (Long Beach) helped by eminent domain." Just how using eminent domain to benefit a multi-billion-dollar bank "helps citizens" is not explained.

The same article details how eminent domain was used in North Hollywood to

forcibly acquire a "brake shop, a gas station and small apartment building" to make way for a Carl's Jr. and an El Pollo Loco. Why is fast food more of a "public use" than housing or brake safety?

Redevelopment staff attend professional seminars promoting the ever-expanding use of eminent domain. Consultants explain how to pay the victims — nearly always small businesses and homeowners — as little as possible.

Some corporate beneficiaries openly defend the aggressive use of eminent domain. Costco's Vice President for Legal Affairs Joel Benoliel writes "without the power of eminent domain, there would be little urban renewal in our cities." That so-called "urban renewal" schemes have proven such failures only shows how destructive property seizures have been.

Apparently Costco's legal spokesman sees respect for property rights as an impediment to economic progress. Of course, it is never giant corporate retailers who are subject to eminent domain.

That the success of a city's renewal depends on the number of big box retail outlets is, indeed, a frightening standard.

The looming threat of eminent domain was made even more immediate by the 2005 *Kelo vs. New London* decision, in which the U.S. Supreme Court ruled any government can seize any property for any reason it sees fit at the time. In its narrow 5-4 edict, the court removed all federal property protections.

Public outrage has been swift and overwhelming. Congress passed a resolution opposing the decision. Legislatures in 38 have hurried to enact their own protections, even as cities see the ruling as a blank check for massive land seizures. The City of Riviera Beach, Florida, is proceeding to condemn over 2,000 homes to make way for a private boat marina development, displacing 6,000 largely low income/minority residents. Both liberal and

conservative commentators on Fox's *Hannity & Colmes Show* are in rare agreement that such land seizures must end.

The BB&T Corporation, the nation's ninth largest financial institution headquartered in Winston-Salem, announced it would not loan money to developers on property seized by eminent domain.

Here in California, newspapers as politically diverse as the *Orange County Register* and *San Francisco Chronicle* reported reader sentiment running 9-1 against Kelo. Strong bipartisan outrage includes both State Senator Tom McClintock and Congresswoman Maxine Waters.

Anaheim is the largest of many cities to pass a charter amendment banning third-party eminent domain in the city. Both the state Republican and Democratic parties took positions against eminent domain abuse.

Packed hearings have been held throughout the state gathering huge crowds calling for statewide protections against property seizures.

Many legislative proposals emerged, some strong, others weak. AB590 by Mimi Walters, Assemblywoman (R-Laguna Niguel) sought to limit eminent domain to public use, while AB1162 by Assemblyman Gene Mullin (D-South San Francisco) sought a moratorium on the takings of owner-occupied homes, but would leave renters and business owners unprotected. Neither passed.

Without legislative action, voters can enact real protection on the February 2008 special primary. Sponsored by the Howard Jarvis Taxpayers' Association the "California Property Owners and Farmland Protection Act" will ban Kelo type eminent domain abuse in California.

The power to take property from one private owner and give it to another private owner lies at the heart of the coercion that makes redevelopment so dangerous.



"What's mine is mine . . . and what's yours is mine!"

## 11 — The Redevelopment Establishment

Redevelopment is an entrenched special interest. It thrives on contributions from its beneficiaries and from lack of awareness of the general public. Its advocate is the California Redevelopment Association, a Sacramento-based lobby that seeks to protect and expand redevelopment power.

The CRA's \$2.9 million annual budget is paid for from hefty annual dues by both agency-members and the private firms that profit from redevelopment. Despite the public tax dollars contributed to the CRA, the public has no say in CRA operations. The CRA is governed by an 18-member board. All are redevelopment agency administrators. None are elected officials. The CRA is operated by and for redevelopment insiders. Good public policy is the last of its concerns.

The CRA is highly sensitive to the growing public and legislative reaction to redevelopment abuse. Its monthly newsletter, *Redevelopment Journal*, brims with advice to redevelopment staff on finessing inquiries from the press and grand juries. It has repeatedly criticized *Redevelopment: The Unknown Government*, and personally attacked its authors but has refuted none of the factual information provided here. Mostly it provides photos of new malls and shopping centers, accompanied by fluff pieces from redevelopment directors.

The CRA has two core constituencies: agency staff members whose salaries derive from redevelopment and private businesses that profit from redevelopment.

Redevelopment staff control agency agendas and recommend actions. Agency members — usually elected city council members — tend to rely more on staff than on their own judgment. Though simple in principle, redevelopment is

presented as too complex for ordinary elected officials and citizens to understand.

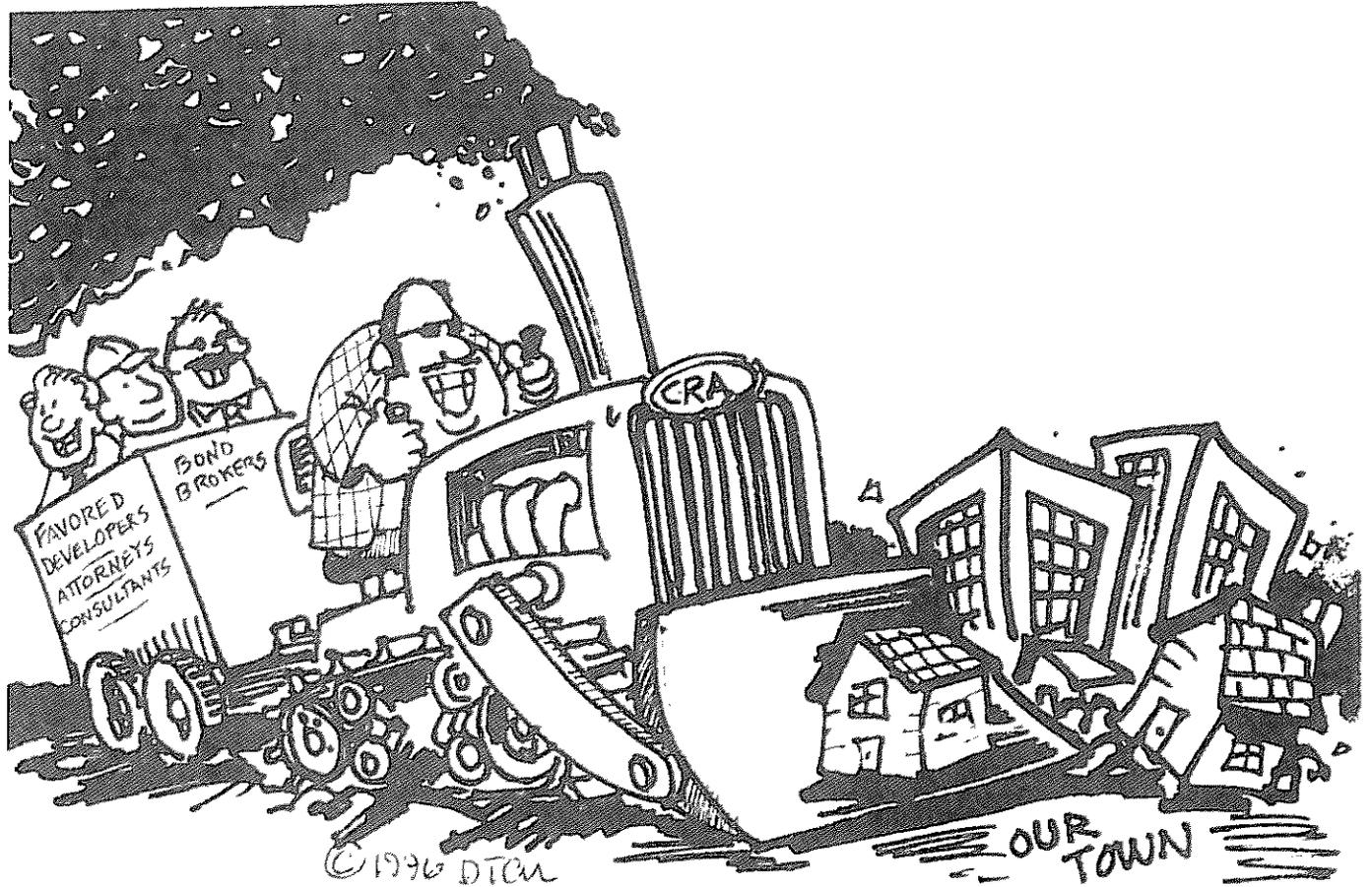
The special interests profiting from redevelopment are easy to find. The 2003 CRA Directory includes 53 commercial developers, 37 bond brokers, 50 law firms and 131 separate consulting firms.

The CRA Annual Conference in Monterey, held March 8-10, 2006, boasted over 100 corporate sponsors and exhibitors. The main purpose of such conferences is to increase business for the firms that prey off redevelopment budgets.

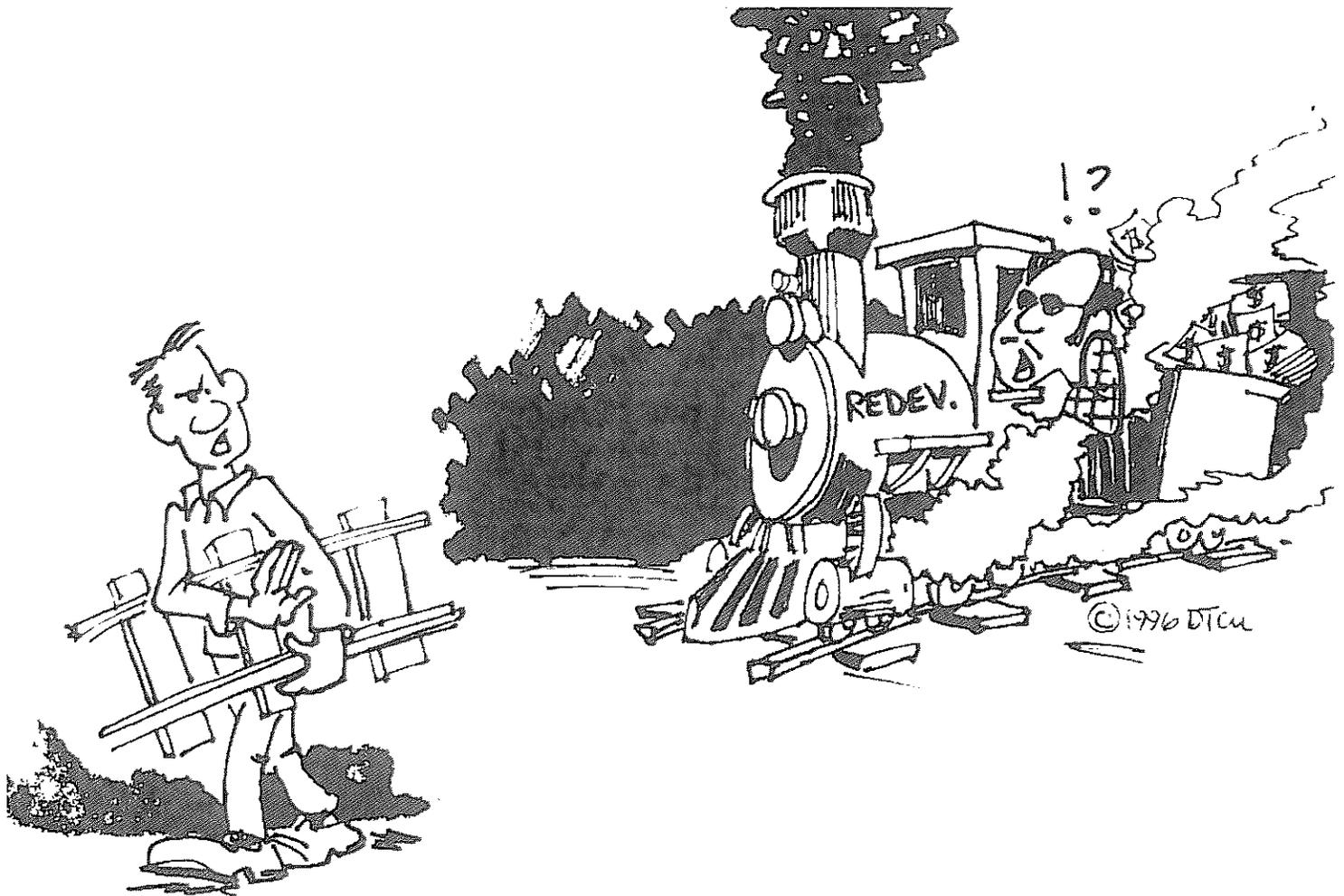
Among these are California's biggest developers, priciest law firms and Wall Street's most powerful brokerage houses. The "expertise" they provide for public officials is always geared toward high debt and expanding redevelopment power.

For all its guile, however, the CRA is puny compared to the California Teachers Association (CTA) and other interest groups that could mobilize to reclaim the money diverted by redevelopment. Admitted one CRA executive, "The largest group we have to fear is the CTA, because they are becoming aware that the money the state backfills to schools is additional money the schools might have, if they had not lost the money to tax increment in the first place."

In the end, the CRA's real power lies in widespread ignorance of what redevelopment is and how it operates. By law, redevelopment agencies are an arm of state government, yet there is little state oversight. This isolation has spawned abuses that would not be tolerated in any other government agency.



*"Follow me, boys . . . another town needs saving!"*



***“Your gravy train ends here!”***

## 12 — What You Can Do

Clearly, redevelopment is out of control.

Under the guise of eliminating blight, it consumes a growing share of property taxes, incurs ever-burgeoning debt, spawns sales tax wars among cities and tramples on property rights. Originally created as a temporary measure following World War II, it threatens to become a permanent cancer on California's political and economic life. Ending redevelopment abuses can be approached on four levels:

**LOCAL ACTIVISM:** If your city has redevelopment, learn more about it and help educate your fellow citizens. Monitor agency agendas, challenge new debt issuances and expansion of project areas. Support local small businesses threatened with eminent domain and facing giant tax-subsidized competitors.

Support channeling redevelopment funds into infrastructure and real public improvements, and away from developer handouts and special interests.

There are many volunteer citizens groups that have sprung up specifically to end redevelopment abuses. The San Jose-based Coalition for Redevelopment Reform (CRR) is one of the largest and recently chartered a bus to testify before legislative hearings in Sacramento.

Grass roots activism can work to protect your neighborhood. When the Garden Grove Redevelopment Agency targeted 800 homes for demolition for an unspecified "theme park," residents rallied to stop the plan.

Encourage your city to work for cooperative sales tax sharing agreements with its neighbors, as allowed for in Proposition 11.

If your city has no redevelopment, use the examples of abuse to keep it out of your city. Wherever you live, support officeholders and candidates who understand redevelopment and

can make their own judgments independent of those who profit by it.

Support candidates like Charles Antos, whose 2002 election to the Seal Beach City Council created an anti-redevelopment majority that abolished the agency.

**STATEWIDE ACTIVISM:** Municipal Officials for Redevelopment Reform (MORR) and Californians United for Redevelopment Education (CURE) are two statewide networks committed specifically to ending redevelopment abuse.

MORR publishes *Redevelopment: The Unknown Government*, which is available to all elected officials and citizen groups.

MORR also holds its California Conference on Redevelopment Abuse, held twice annually; spring in the Los Angeles area, and fall in the Bay Area. Attended by legislators, lawyers, mayors and activists, the confabs provide needed information — and inspiration — for those fighting redevelopment abuse. Call 714-813-5899 for the upcoming conference nearest you or for additional copies of this publication.

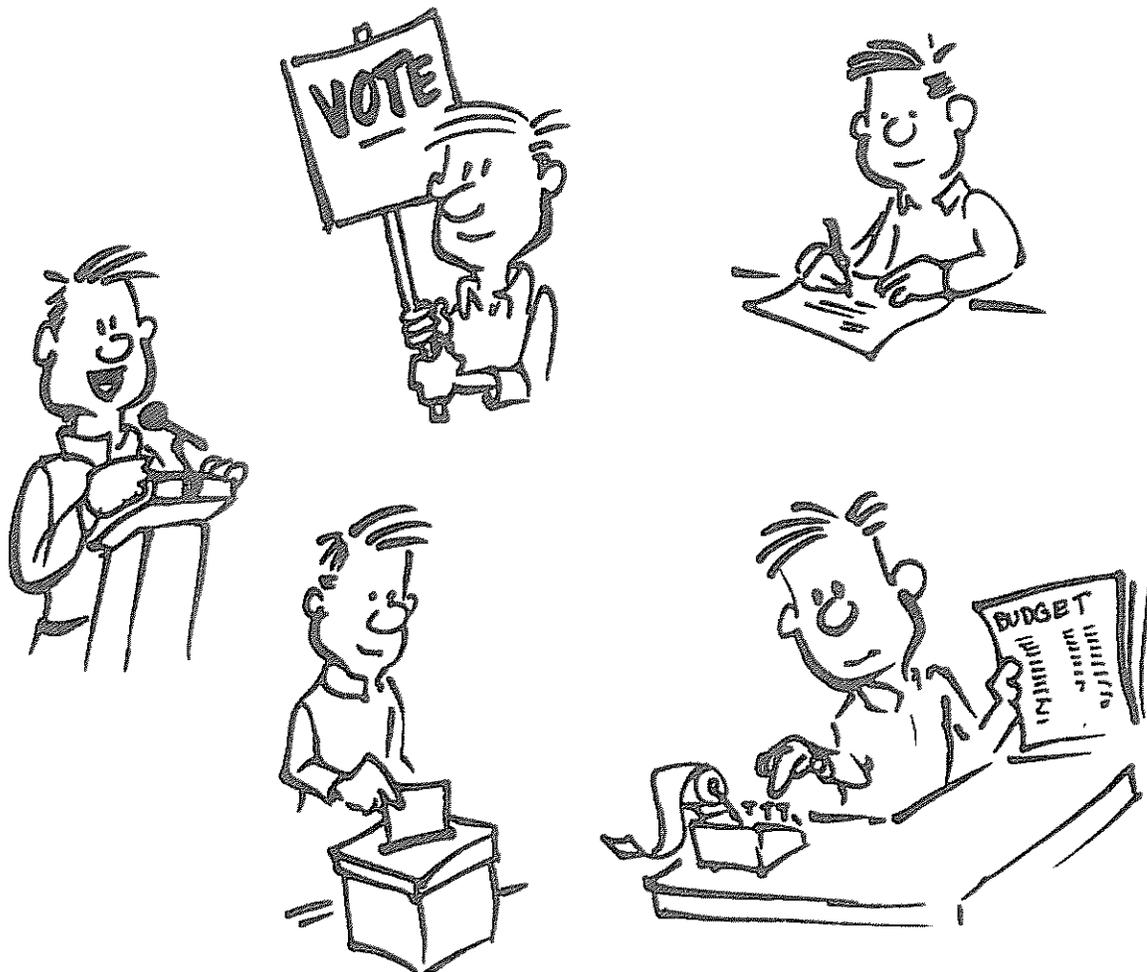
CURE is an all-volunteer network, providing contacts among the many locally-based activist groups throughout the state. Call 323-567-6737 to get involved.

**LEGAL CHALLENGE:** County and school officials must be more aggressive in appealing redevelopment tax diversions. Grand Juries must broaden their probes into redevelopment.

Despite, the *Kelo* verdict, there are still many ways redevelopment abuses can be legally challenged. A growing number of public interest lawyers are willing to defend small property owners against redevelopment agencies.

The state, counties and schools districts are increasingly suing to stop redevelopment revenue raids against vital services.

**STATE LEGISLATION:** It is wholly within the powers of California voters, the state



legislature and governor to reform, alter or abolish redevelopment laws. The following issues must be addressed:

**Oversight:** Greater oversight at the county level is needed to protect local revenues from redevelopment diversions.

A proposal by Assemblyman Chuck Devore (R-Irvine) gave each County Board of Supervisors final authority over redevelopment area creations, extensions and amendments within their jurisdictions. This would have assured the counties' full share of local property taxes needed for public services. It was killed by CRA allies and developer interests.

**Eminent Domain Controls:** The legislature or the voters must restore protections placed in doubt by the *Kelo* decision. By statute or constitutional amendment, Californians must have equal assurances to own and enjoy their homes and businesses without fear of them being seized to benefit another.

**Sales Tax Reform:** Some type of per capita sales tax disbursement would end predatory redevelopment and return cities to an equal footing. Assured of a stable revenue flow based on population size, cities could concentrate on providing basic services, rather than subsidizing new businesses.

**Debt Control:** Make redevelopment debt subject to voter approval. This would limit debt issuance and make agencies more publicly accountable.

**Mandatory Sunsets:** The 40-year sunset law must be given teeth and enforced. If redevelopment agencies truly have eliminated blight, then there should be no further need for them.

**Infrastructure:** Redevelopment funds are public funds that should be spent on public infrastructure, not on private projects. Tighter state legislation should restrict expenditures to improving public streets, parks and other facilities.

**Comprehensive Fiscal Reform:** A rational and stable method of funding local government must be found, shifting cities back to greater reliance on property taxes and less on sales tax

**Additional Set-asides:** In addition to the 20% mandatory set-aside for housing, new controls could be placed on redevelopment spending. For example, 20% of redevelopment funds could be spent on water quality, 20% for law enforcement, 20% for school construct and 20% for transportation. Redevelopment funds would then be directed to serve the public interest.

Concern over redevelopment abuse is growing and cuts across party lines. It includes pro-property rights Republicans and anti-corporate welfare Democrats. It includes conservatives opposed to growing public debt and liberals opposed to the destruction of poor neighborhoods. It includes free market libertarians and civil rights activists fighting the displacement of minority communities.

It includes labor unions opposed to subsidizing non-unionized big box retailers and small business owners fighting against just trying to stay afloat. It includes environmentalists concerned about suburban sprawl and preservationists lamenting the demolishing of historic downtowns.

Facing ever growing needs with ever scarcer revenues, the growing pot of redevelopment money will be restored to serve the public. It's just a matter of time.

More Californians are asking themselves about the proper use of public funds; More Costcos or more classrooms? More multiplexes of more libraries? Public health or private development? When enough do, change will come quickly.

When redevelopment agencies are no longer the unknown government, policies promoting fiscal responsibility, fair play and free enterprise will finally be restored.



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# MORR

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