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## California Redevelopment 2.0: Implementation of Community Revitalization and Investment Authorities

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**California Redevelopment 2.0:**

Implementation of Community Revitalization and Investment Authorities

by

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A Thesis-Quality Research Paper

Submitted in Partial Fulfillment of the

Requirements for the Master's Degree

in

Public Administration

Professor Frances Edwards, Ph.D.

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## **Background**

This research was aimed at revealing the challenges and opportunities in implementing Community Revitalization and Investment Authorities (CRIAs) in California. Beginning with the California Community Redevelopment Act of 1945, California cities have historically had the authority to create redevelopment agencies (RDAs) to encourage economic development in blighted areas. (Black, 2014) The foundation underlying past and present redevelopment tools in California involves the use of tax increment financing (TIF). Tax increment is the difference between the tax revenue at the inception of the TIF and additional tax revenues based on the increased assessed property valuation in the years following the inception of the TIF. The tax increment "is diverted into a separate pool, which can be used to pay for improvements directly or to pay back bonds issued against the anticipated TIF revenue." (California Association for Local Economic Development, 2016)

One of the issues with TIF was that school districts, as participating taxing entities, would potentially lose part of their share of property tax increases, until the bonds are completely paid off. This was in addition to losses in property taxes to schools due to changes in property tax law. In 1978, decades after RDAs were first created, Proposition 13 created significant constraints on property tax increases. (California Tax Data, 2005) Lefcoe and Swenson (2014) estimated schools would lose 60 percent of their share of property taxes due to Proposition 13.

Otherwise stunted by TIF-induced losses of property taxes, schools relied on the state constitution to receive "mandated amount of basic aid" (Lefcoe, 2012), which obligated the state to "'backfill' any losses that result from redevelopment agencies taking what would have been the school's share of property taxes." (Lefcoe, 2012) To offset the cost of backfilling, the state moved taxes used for local government-related funds towards education using Educational Revenue

Augmentation Funds. This meant less money for local governments and adequate money for schools. If a city wanted to use TIF, they would be effectively sacrificing part of the state funds they would normally receive.

Proponents of local governments and RDAs rallied in response through the support and passage of Proposition 22, which "included a provision to safeguard the tax increment funds of local redevelopment agencies (RDAs) from being taken by the state, basically to finance schools." (Lefcoe, 2012)

Governor Brown countered with the idea of dissolving RDAs altogether. (Brown, 2011) The dissolution of RDAs eventually became a reality after the passage and subsequent California Supreme Court case involving AB XI 26 and 27. (Lefcoe, 2012)

For a few short years, California cities were stripped of their authority to create RDAs or anything resembling them. However, California municipalities soon gained the ability to form CRIAs through signing of AB 2 (A.B. 2, 2015), with further improvements by AB 2492. (A.B. 2492, 2016; CRIA, 2016) CRIAs are one of a few economic development tools currently available to local governments. Another tool was made possible by California Senate Bill (S.B. 628, 2014), establishing the process for creating Enhanced Infrastructure Financing Districts (EIFDs). (EIFD, 2018; Los Angeles County Metropolitan Transportation Authority, 2017) This study will focus on the implementation of CRIAs, but it is worth examining alternative economic development tools to draw comprehensive comparisons and understand their advantages and disadvantages.

**Community Revitalization and Investment Authorities**

Tierra West Advisors say that of all the new economic development laws, AB 2 provides the most useful tools to local governments because "it will help increase employment opportunities, reduce crime rates, repair deteriorating and inadequate infrastructure, and promote more affordable housing in the areas who need it most." (Tierra West Advisors, 2016) Antonio Villaraigosa, former mayor of Los Angeles, recently shared his opinion on the limitations of existing tools and emphasized that "solving our state's growing housing crisis will take a sustained commitment and creative thinking." (Villaraigosa, 2017) The mixed bag of perceived advantages and disadvantages relating to CRIAs provides a promising invitation for future study on the topic.

One of the advantages of CRIAs is the opportunity to revitalize blighted areas. For example, in some economically depressed neighborhoods, the cost of maintenance and repair of the existing infrastructure may be more than the cost of outright replacement through redevelopment. If this is the case, then there may be incentive to move forward with the redevelopment project, as new infrastructure may provide additional amenities, such as modern communications systems, underground utilities, improved water distribution, improved sewer systems, roads, sidewalks, and storm water collection systems.

Understanding economic development tools may be valuable for the commercial and industrial growth and prosperity of cities and local governments. It may also be important to increase the number of affordable housing units in an area. Businesses and low-income families alike share the benefits of successful redevelopment. It may be possible to reveal alternative tools or strategies of economic development through the careful study of CRIAs and what they might be lacking.

**Who Can Form a CRIA?**

The limitations on who may and may not form a CRIA may account for the small number of potentially interested communities discovered in the research on CRIAs. Any city, county or special district may form a CRIA. There are two forms of CRIAs: single-entity and multi-entity. Single-entity CRIAs are formed by individual cities, counties or special districts. Multi-entity CRIAs are formed through the creation of a joint powers authority which then manages the CRIA. (Tiedemann, 2016a) Tiedemann compares single- and multi-entity CRIAs as follows:

"There is no clear advantage to selecting one type of CRIA over the other, except that taxing entities might be more likely to pledge tax-increment funds and commit long term to a CRIA that provides the taxing entities a role in its governance. The governing body of a single-member CRIA is appointed by the city council (or board of supervisors) and must consist of three members of the sponsoring community's legislative body and two members of the public who live or work within the revitalization area. In contrast, a majority of the members of a multi-entity CRIA must be members of the legislative bodies of the public entities that created the CRIA and include at least two members of the public who live or work within the revitalization area and are appointed by the other board members." (Tiedemann, 2016a)

Schools and community colleges may not form a CRIA. (Tiedemann, 2016a) The reason for excluding schools and colleges from participating in CRIAs may stem from the history of RDAs taking advantage of property tax increment that school districts would normally receive.

Cities or other entities with Successor Agencies may not form a CRIA until they have a Finding of Completion from the Department of Finance. (CRIA, 2016) The Department of Finance has a list documenting 369 cities and counties that have Successor Agencies with Findings of Completion. (California Department of Finance, 2015) The requirement for the Finding of Completion apparently shows that AB 2 intended to ensure Successor Agencies have a plan to resolve their existing financial obligations prior to engaging in new economic development based on CRIAs. In other words, AB 2 does not reinstate the dissolved RDAs of the

past—it only provides a new economic development tool, separate from the past, in the form of CRIAs.

Cities that had a Redevelopment Agency and opted to fully dissolve the Redevelopment Agency have no need for a Successor Agency. These cities therefore are not required to have a Finding of Completion, and may create a CRIA in areas that are eligible. An example of such a city is Palo Alto. (Palo Alto, 2011)

### **Reaction to AB 2**

AB 2 was the first bill to pass that would allow the creation of a CRIA. When AB 2 was passed, various attorneys and law firms sent out "law alerts" to their clients and the public, detailing the recent passage of AB 2 and condensing the basic highlights of the bill. (Duran-Brown, 2015; Katten Muchin Rosenman, 2015; Goldfarb Lipman, 2015)

Notably, one article mentions the requirement that a minimum 25% of funds generated for the CRIA must be used for affordable housing projects. (Best, Best & Kieger, 2015) Other experts, such as realty groups, focused on similar tools, such as Enhanced Infrastructure Financing Districts (EIFDs). (Kosmont, 2016a)

Even though AB 2 provided new avenues for financing, its acceptance was not universal. Criticism of AB 2 included observations that it may "punish property owners for things they are powerless to change: unemployment, crime, and poor infrastructure." (Institute for Justice, 2015)

**CRIA Area Eligibility**

An important point of AB 2 is that CRIAs could only be designated where at least 80% of the area has an annual median household income that is less than 80% of the statewide annual median income. The CRIA areas were only eligible if each and every individual census block group or census tract within the area independently met the eligibility calculations. An alternative for designating these areas is when they can be characterized as "disadvantaged communities," as specified within SB 535, which requires a reduction in greenhouse gas emissions. SB 535 also requires that "a quarter of the proceeds from the Greenhouse Gas Reduction Fund must also go to projects that provide a benefit to disadvantaged communities." (OEHHA, 2017) Areas with closed and deteriorated military bases are also eligible.

In addition to the limit of 80% of annual median household income, areas designated as disadvantaged communities also had to meet at least three of the following four conditions:

1. unemployment is at least 3% higher in the area than the statewide median unemployment;
2. the crime rate is 5% higher than the statewide median crime rate;
3. the area has deteriorated or inadequate infrastructure; and
4. the area has deteriorated commercial or residential structures.

**CRIA Implementation Improvements with AB 2492**

A follow-up to AB 2 was AB 2492, which allowed for more flexibility in determining eligibility of an area for redevelopment under a CRIA. For example, under AB 2492, the area eligibility could be made using any combination of census block groups and/or census tracts. In this way, census block groups and/or census tracts could be combined in creative ways to form a CRIA

area as long as the combined CRIA area itself met the eligibility requirements. (CRIA, 2016)

Also, the requirement of 80% of annual median household income could be calculated versus statewide, countywide, or even citywide annual median household income. (CRIA, 2016)

Thus, the poorer parts of a wealthy city or wealthy county could be eligible. This opened the possibility for forming a CRIA to potentially any city in the state.

### **What can CRIAs do?**

CRIAs have the authority to execute the following actions (CRIA, 2016):

1. "Provide funding to rehabilitate, repair, upgrade, or construct infrastructure." (CRIA, 2016) This infrastructure may include utility lines, sidewalks, sewers, parking, roads, communication systems, etc.

2. "Provide for low- and moderate-income housing." (CRIA, 2016) Providing this housing may include acquiring property for building sites, improving the property, donating property for affordable housing projects, financing insurance premiums for construction or rehabilitation, constructing, acquiring, or rehabilitating buildings, developing plans, and providing subsidies.

3. "Remedy or remove a release of hazardous substances." (CRIA, 2016) According to California Health and Safety Code section 33459, "remedy" or "remove" means "any action to assess, evaluate, investigate, monitor, remove, correct, clean up, or abate a release of a hazardous substance or to develop plans for those actions." (HSRC, 2015)

4. "Provide for seismic retrofits of existing buildings." (CRIA, 2016)

5. "Acquire and transfer real property." (CRIA, 2016) Any existing controls or restrictions on the land would be retained by the CRIA. Notably, property may be acquired through eminent

domain within the first 12 years from the adoption of the CRIA plan.

6. "Issue bonds." (CRIA, 2016) This authority is one of the key factors allowing CRIAs to raise funds to execute economic development.

7. "Borrow money, receive grants, or accept financial or other assistance or investment from the state or the federal government or any other public agency or private lending institution for any project within its area of operation, and may comply with any conditions of the loan or grant." (CRIA, 2016)

8. "Adopt a community revitalization and investment plan." (CRIA, 2016) The plan includes a plan area in which the economic development happens.

9. "Make loans or grants for owners or tenants to improve, rehabilitate, or retrofit buildings or structures within the plan area." (CRIA, 2016) The ability to make loans to owners can be coupled with the ability to raise funds through the issuance of bonds. For example, once bonds are issued and funds are raised, then the CRIA can use those funds to make loans to owners to improve their existing structures. These improvements may include graffiti removal, fixing fences, repairing roofs, rehabilitating plumbing, heating, and mechanical systems, and adding modern communication infrastructure, among other things.

10. "Construct foundations, platforms, and other like structural forms necessary for the provision or utilization of air rights sites for buildings to be used for residential, commercial, industrial, or other uses contemplated by the revitalization plan." (CRIA, 2016)

11. "Provide direct assistance to businesses within the plan area in connection with new or existing facilities for industrial or manufacturing uses." (CRIA, 2016) There are specific exceptions that restrict CRIAs from funding the development of certain types of business, including car dealerships on undeveloped land, gambling establishments, and development on

parcels of land of 5 or more acres, other than office, hotel, manufacturing, or industrial.

### **Alternative Economic Development Tools in California**

With the passage of AB 2, AB 2492, and other bills, there are now tools available for economic development. Comparisons have been made among the various tools available today, including IFDs, and EIFDs. (Amador, 2016) Various laws were passed in California, leading to the present set of economic development tools, including the following bills unrelated to CRIAs: First, SB 628, allows the creation of EIFDs. Second, AB 313 allows any local agency that provides resources towards economic development to participate on EIFD boards and in the EIFD planning process. (Amador, 2016) Appendix 1 of this document contains "A Summary of California Tax-Increment Financing Tools for Community Economic Development." (Tiedemann, 2016b)

### **Early Feasibility Studies**

Several local governments have studied the possibilities of implementing CRIAs, including Huntington Park, Los Angeles, Riverside, San Diego, Seaside, and Watsonville. (City of Huntington Park, 2016; City of Los Angeles, 2016; City of Riverside, 2016; City of San Diego, 2016; City of Seaside, 2017; City of Watsonville, 2016) As of the date of this study, no local government has fully implemented a CRIA. The closest any local government has come is Huntington Park, which formally created a CRIA, but has not yet adopted a CRIA plan.

### **Literature Review**

A large body of knowledge is available for redevelopment tools in California that existed before the new set of tools, like CRIAs and EIFDs. (Blount, 2014; Squires & Hutchinson, 2014)

However, very little research has been done on the impact of RDA dissolutions and CRIA implementations, other than newspaper articles. (Mason & McGreevy, 2015; Shackford, 2015; Siders, 2015) Research in this area is sparse because AB 2 and AB 2492 are fairly recent laws and there has not been sufficient time for academic study of their impact.

It is broadly known that public managers and economic developers use redevelopment tools, such as tax increment financing, to incentivize development in particular areas. (Black, 2014) AB 2 and AB 2492 have a history of legislative bill analysis. (California Senate Committee on Transportation and Housing, 2015). There are also pamphlets (League of California Cities, 2015) and informational booklets (California Association for Local Economic Development, 2016) produced by various associations that explain and summarize AB 2, (Tiedemann, 2016a) and there are the bills themselves. (A.B. 2, 2015; A.B. 2492, 2016)

### **History of how AB 2 came into existence**

Most of the existing literature involving AB 2 only touches on the history surrounding its creation. For 67 years, California's 400-plus redevelopment agencies used TIF to pay for infrastructure improvements, affordable housing, and other economic development projects—this ended on February 1, 2012. (Black, 2014) In early 2011, Governor Jerry Brown expressed his plan to not only cut spending, but to also transfer some public service responsibilities from the state government to California counties and cities. He acknowledged that the increased county and city services would need funding sources. (Black, 2014) Gov. Brown's January 31

State of the State Address included the following language related to redevelopment agencies:

In recent days, a lot has been made of the proposed elimination of redevelopment agencies. Mayors from cities both large and small have come to the capitol and pressed their case that redevelopment is different from child care, university funding or grants to the aged, disabled and blind.

They base their case on the claim that redevelopment funds leverage other funds and create jobs. I certainly understand this because I saw redevelopment first hand as mayor of Oakland. But I also understand that redevelopment funds come directly from local property taxes that would otherwise pay for schools and core city and county services such as police and fire protection and care for the most vulnerable people in our society.

So it is a matter of hard choices and I come down on the side of those who believe that core functions of government must be funded first. But be clear, my plan protects current projects and supports all bonded indebtedness of the redevelopment agencies. (Brown, 2011)

Despite efforts by the redevelopment lobby, in June 2011 "the California Legislature approved and Gov. Brown signed legislation that allowed for two options: dissolve the RDAs or require the RDAs to shift some of their funds to education districts." (Svorny, 2014) Black summarizes the history as follows:

In June 2011, the Legislature moved to abolish redevelopment agencies (RDAs). AB XI 26 eliminated redevelopment agencies, while AB XI 27 gave RDAs the option of voluntarily paying a "remittance" to the State, to avoid being dissolved.

Legal challenges were widely expected, and in fact both bills were challenged. In December 2011, the State Supreme Court upheld AB XI 26, on the basis that if the State had created RDAs, it had the legal authority to dissolve them. At the same time, the Court struck down AB XI 27. (Black, 2014)

Many experts agree that it was unfortunate that jurisdictions were forced to give up the economic development tool of RDAs. (Carrigg, 2016; Merewitz & Walsh, 2013; Svorny, 2014) The required dissolution of over 400-plus redevelopment agencies was a hot issue in California that necessitated accounting and financial reporting. (California Committee on Municipal Accounting, 2012) Between 2011 and 2015, before successfully introducing new economic development tools, the California legislature pushed through a few failed attempts to reinstate

redevelopment agencies. (Chin, 2013; Jensen, 2013) There was also political resistance to the reimplementation of redevelopment agencies. (Institute for Justice, 2015)

Presently, municipalities may create CRIAs due to the passage of AB 2 and AB 2492. However, since these tools are in their infant stages, and have not been thoroughly implemented, there is no other academic literature currently available on the success or failures of CRIAs.

**Methodology**

A four-phase process evaluation was used to identify a problem, create a solution, implement the solution, and evaluate subsequent feedback to understand the implementation of CRIAs. (Sylvia & Silvia, 2012) The methodology described in Sylvia and Sylvia's *Program Planning and Evaluation for the Public Manager* (p. 94) was used and adapted as shown in Table 1 below:

Table 1 - Methodology			
Problem Identification	Solution Development	Implementation	Feedback Evaluation
<ul style="list-style-type: none"> <li>• The California Supreme Court rules in favor of law dissolving redevelopment agencies. (Dolan, Garrison, &amp; York, 2011)</li> <li>• California is left without adequate tax increment financing economic development tools.</li> </ul>	<ul style="list-style-type: none"> <li>• AB 2 and AB 2492 allow for the creation of Community Revitalization and Investment Authorities (CRIAs).</li> <li>• CRIAs provide municipalities with a tax increment financing economic development tools.</li> </ul>	<ul style="list-style-type: none"> <li>• Municipalities fail to implement CRIAs for a variety of reasons:                             <ol style="list-style-type: none"> <li>1. Ineligible due to Successor Agency</li> <li>2. Difficulty in determining eligible CRIA locations.</li> <li>3. Lack of appropriate CRIA locations.</li> <li>4. Financial and other issues.</li> <li>5. Other options are more appropriate for a given situation, such as Enhanced Infrastructure Financing Districts (EIFDs).</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Due to lack of CRIA implementation, the challenges and barriers to implementation are evaluated and analyzed.</li> </ul>

## **Findings**

Extensive research was conducted to identify any California municipality that has fully implemented a CRIA. This research included internet searches, checking news media and non-profit organizations related to economic development and redevelopment, contacting city and county employees, scouring municipal websites, contacting State Department of Finance employees that deal with findings of completion, and searching for evidence of CRIA implementation with the leading redevelopment consultant firms in the state. The result of the research is that only one city has formally created a CRIA, but has not yet fully implemented its CRIA plan. The details of the efforts to identify any implemented CRIAs are elaborated below.

Internet searches were conducted using Google Scholar, Google.com, Bing.com and Duckduckgo.com. The following keywords and phrases were used in the searches, and the first 5 pages (top 50 results) of search results were reviewed for applicability to the research topic: "CRIA California", "Community Revitalization and Investment Authority", "California Community Revitalization and Investment Authority", and "CRIA". More relevant information was found when adding the word "California" to the search query. "CRIA" alone contained mostly unrelated content. Searching for "Community Revitalization and Investment Authority" resulted in a mix of related content, although the keywords are also found in redevelopment websites pertaining to locations outside of California. Searching was done with and without boolean functions, such as the use of quotation marks to force the search to include all keywords in sequence. This resulted in similar search results.

News media and non-profit organization websites were also reviewed for information on CRIA implementations. The California Association for Local Economic Development has an annual training conference that has recently included information on CRIAs, but no evidence

shows that a municipality has implemented one yet. Other organizations and news sites similarly discuss CRIAs, but lack evidence of CRIA implementation. (Amador, 2016; Carrigg, 2016; Dillon, 2018; League of California Cities, 2015; Mason & McGreevy, 2015; Shackford, 2015; Tiedemann, 2016)

Various municipalities were contacted from Winter 2017 through Spring 2018 to ascertain the possible progression of CRIA implementations\*. In general, the public employees that were most likely to know about CRIAs had positions related to economic development, including economic development directors, managers, and coordinators. Typically, the front-line staff were not aware of economic development tools such as CRIAs. A chart of municipalities that either showed up in the searches and/or were personally contacted is provided in Table 2 below.

The California Department of Finance deals with redevelopment successor agencies and did not have an official list of implemented CRIAs at the time of this research. (California Department of Finance, 2015)

In interviewing private consultants and professionals knowledgeable about CRIAs\*, the consensus is that there has not been a fully implemented CRIA in California as of the time of this research. These experts would likely be the first people to know of a new CRIA, as it is their job to consult municipalities in CRIA formation. There are a limited number of consulting firms in California that specialize in economic development and redevelopment. The firms tend to present as many economic tools as are available, often including EIFDs. (Amador, 2016; Kosmont, 2016a; Tiedemann, Hutchins & Yaquian, 2016) Kosmont Companies, in particular, is assisting a large number of cities to evaluate EIFDs, while only a few cities are evaluating CRIAs. (Kosmont, 2018a) Table 2 shows progress toward CRIA implementation.

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Entity Name	No CRIA Activity	Informational Report Only	Consultant Contracted	CRIA Evaluated	CRIA Formed	CRIA Plan
City of Anaheim *	X					
City of Brisbane (Keyser Marston Associates, 2017)			X	X		
City of Fairfield (2017)			X	X		
City of Huntington Park (2017)			X	X	X	
City of Los Angeles (2016)			X	X		
City of Pasadena (2016)		X				
City of Redlands (Kosmont, 2018b)			X	X		
City of Riverside (2016)			X	X		
City of San Bernardino (Kosmont, 2018b)			X	X		
City of San Diego (2016)			X	X		
City of San Jose *	X					
City of Santa Ana (Kosmont, 2018b)			X	X		
City of Seaside (2017)			X	X		
City of Vallejo *	X					
City of Watsonville (2016)			X	X		
County of Los Angeles (2016)				X		
County of Riverside (Patch California, 2018)		X				
San Diego East County Economic Development Council (Kosmont, 2016b)			X	X		
San Mateo County Transit District (2015)		X				

In Table 2, above, "No CRIA Activity" indicates that the entity was contacted and had not

\* This information was given to me without permission to quote the source.

formally researched the option of using a CRIA. "Informational Report Only" indicates evidence that the municipality simply discussed CRIAs in a public meeting or that public officials mentioned interest in CRIAs. "Consultant Contracted" indicates evidence of either (1) an approval by a governing body of a competitive bid resulting from a request for proposal for a CRIA feasibility study, or (2) a statement by a consultant firm that they are under contract with a municipality to study the feasibility of implementing a CRIA. "CRIA Evaluated" indicates that a cost/benefit analysis or other formal research has been done to estimate the feasibility of a CRIA. "CRIA Formed" indicates that a governing body has officially formed a CRIA. "CRIA Plan" indicates that the required CRIA plan has been adopted by the governing body.

Notably, the only evidence of a municipality performing a rigorous study on the feasibility of a CRIA, without contracting with a consultant company, is the County of Los Angeles. Since the study and implementation of CRIAs requires specialized knowledge, it appears more likely that municipalities would hire consultants to do the work.

An example of the furthest progress any municipality has made towards full implementation of a CRIA is the City of Huntington Park's legal formation of a CRIA. (Huntington Park, 2017) Once their CRIA plan is created, Huntington Park may have the first fully implemented CRIA in California.

## Analysis

At the time of this research, no evidence is found of any organization that has a fully implemented CRIA, including the legal formation and adoption of a CRIA plan. Municipalities have to overcome certain obstacles and challenges in order to fully implement a CRIA. The following analysis evaluates such challenges and obstacles.

### 1. Jurisdiction Is a Successor Agency without a Finding of Completion

According to California law (DRADSA, 2015), the Department of Finance issued Findings of Completion to Successor Agencies that had verified, written installment payment plans for bond debts. These Findings of Completion had to be issued before December 31, 2015. If a Successor Agency had not received a Finding of Completion by that date, then they would be ineligible to form a CRIA until all debts are paid in full.

The Department of Finance website (2015) shows a list of 369 Successor Agencies that have received Findings of Completion. Another list kept by the Department of Finance (2016) shows that there are 23 RDAs that have been completely dissolved. This brings the total number of RDAs that either were completely dissolved or became Successor Agencies with Findings of Completion to at least 392 entities. According to Black (2014), there were over 400 RDAs before the dissolution laws were enacted. Therefore, it is safe to say that the vast majority of Successor Agencies have a Finding of Completion and are eligible to form CRIAs. No jurisdictions were found in this research that are Successor Agencies without a Finding of Completion, although a small number of such jurisdictions may exist.

2. Difficulty in determining CRIA locations.

The next step in determining eligibility for a CRIA is finding an area not in a Successor Agency community that has an annual median household income that is 80% or less of the statewide, countywide, or citywide annual median household income. This can be determined using census data and GIS software. There is also a screening tool hosted at [www.kosmont.com/services/eifd-cria](http://www.kosmont.com/services/eifd-cria) that provides a first glance at area eligibility for designation as a CRIA (Kosmont, 2018a). The screening tool was developed by the Southern California Association of Governments in 2017 and includes information for 197 local jurisdictions in southern California. (Kosmont, 2018a)

After determining the initial eligibility requirement for income, the proposed CRIA area must satisfy three of four conditions dealing with (1) unemployment rate, (2) crime rates, (3) deteriorated infrastructure, and (4) deteriorated commercial or residential structures. (CRIA, 2016)

Two of the four findings required for determining eligibility of a proposed CRIA location are subjective in nature. These include making findings that the area has deteriorated or inadequate infrastructure, and deteriorated commercial or residential structures. Although it may be possible for a municipality to liberally interpret the area to be deteriorated, it may also be difficult to justify that interpretation in the eyes of the public. Competing public interests may cry foul if a city tries to call a location deteriorated when there are areas in the city that are plainly more blighted. For example, if the light rail system serving a disadvantaged neighborhood is in sore need of improvement, it may be difficult for elected bodies to instead attempt to divert economic development resources towards upgrading an already satisfactory highway system.

The two objective requirements of the list of four are related to crime and unemployment. These objective requirements are based on information from reports that can be readily obtained on an ongoing basis. As the two subjective requirements (deteriorated infrastructure/commercial/residential) may inherently be met with more flexible findings, it may therefore be easier to meet three of the list of four requirements by first meeting the two subjective-related requirements and finishing with only one of the objective requirements. For example, an area may easily meet findings that show it has deteriorated infrastructure and residences, and then only needs to have either a crime problem or an unemployment problem to be eligible for a CRIA.

Two additional options for determining CRIA area eligibility include designation as a “disadvantaged community” and areas that are deteriorating former military bases. These two options allow CRIA eligibility regardless of meeting the other aforementioned requirements. On the website for the California Office of Environmental Health Hazard Assessment, there is an interactive map showing the boundaries of all “disadvantaged communities.” (OEHHA, 2017) This map can be used to clearly and simply delineate areas eligible for proposed CRIAs.

Regions that are former military bases and found to be deteriorated may also be eligible for CRIA designation. There are more than 170 former military bases in California. (Holub, 2016) Figure 1 shows a map with pinpoints at the approximate locations of these former military bases.

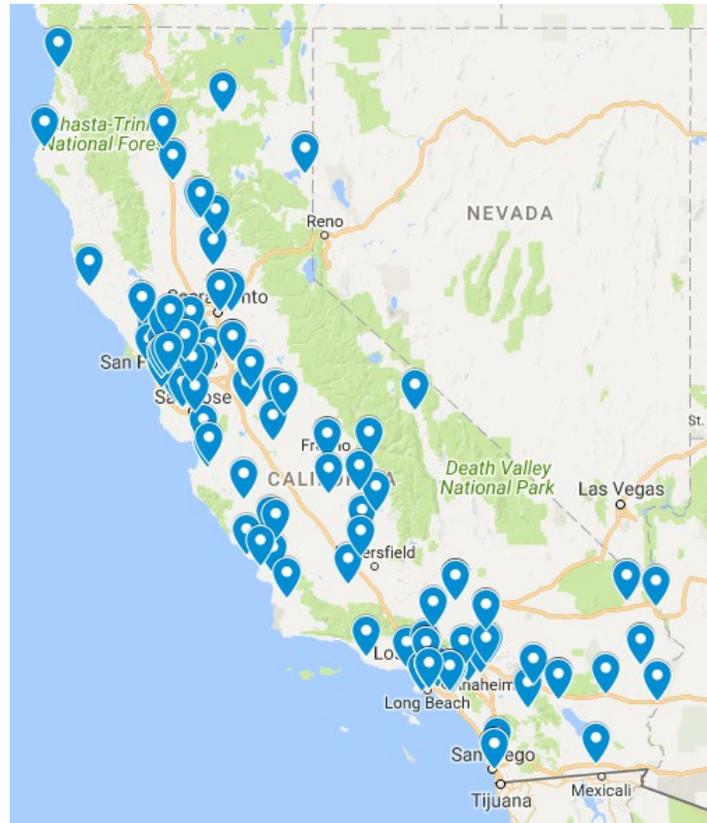


Figure 1: Former Military Bases in California (Holub, 2016)

The City of Vallejo, in particular, has a decommissioned naval base which is being redeveloped. The federal government is cleaning up the brownfields and economic development is being conducted at the site without the use of a CRIA.\*

### 3. Lack of appropriate CRIA locations.

Even after basic eligibility is established, CRIAs may be difficult to locate for a variety of reasons. Municipalities must first determine that there is an economic need for the CRIA. Cities are engines of growth and typically look for ways to expand their tax base. By bringing in new commercial and industrial businesses, the tax base can improve. A rich tax base, especially one

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with a strongly positive jobs/housing balance (California Planning Roundtable, 2008), provides cities with options for improving the quality of life of their residents, including offering various public amenities such as parks, recreational facilities, and well-maintained infrastructure. Cities therefore have an innate motivation to seek new businesses that fall within the CRIA strictures against car dealerships and shopping malls. (CRIA, 2016)

In-depth financial analysis is required to determine the feasibility of a particular CRIA location and how new development or redevelopment would impact the property tax and the surrounding area. Cities may be looking to redevelop blighted areas within the urban core, or they may be looking to develop vacant land on the suburban edge. For development within the core of a city, there may be great opportunity to reverse a trend of blighting and revitalize downtown neighborhoods. This may feed into gentrification, however, there is likely to be a large property tax increment potential to fuel redevelopment. Some other factors that municipalities may consider when deciding where to focus CRIA-funded economic development may include natural resources, port facilities, rail stations, unique cultural or historical resources, military bases, brownfields, and prime farmlands.

Another obstacle for locating a CRIA is that there may not be interest in the business sector to develop in certain locations. This may be due to a struggling economy, a saturated, competitive market, or a lack of market demand for certain businesses. (Gallup, Sachs, & Mellinger, 1998) These challenges may be insurmountable, or it may only take time for the market to evolve. Economic development officers employed by cities and counties have the opportunity to find viable reuses for urban land that would meet CRIA requirements. A serious challenge for these officers is in finding locations that are viable even when including the 25% affordable housing component required under CRIA law. Economic development officers can

also work with the business community and planning departments to streamline the process for economic development activity.

Although economic development can bring jobs, improved quality of life, and an improved tax base, there are often opponents to development. People that resist the idea of a new business in the vicinity of their home or workplace may react politically to thwart economic development. Their issues with development may include issues that have to be addressed in a California Environmental Quality Act (CEQA) review of all significant new development projects, such as noise, odors, traffic, hazardous materials, pollution, or other real or perceived threats to their health, welfare, safety, or quality of life. (Environmental Quality, 1979)

#### 4. Financial and other issues.

There are a variety of financial challenges that may make the implementation of CRIAs less feasible. The life cycle of a CRIA begins with the issuance of bonds. Over the life of the CRIA, the bonds are repaid using the property tax increment, and during that time the participating taxing entities only receive the base property tax revenue amounts. In the past, school districts have been forced to participate in redevelopment agencies and have lost the property tax increment that they would otherwise have received. To offset these losses, the state government historically “backfilled” school district budgets with state general funds. Since school districts are no longer allowed to participate in CRIAs, school districts now receive their full tax increment, but CRIA finances are limited to using property tax increment from the member taxing entities, such as cities, counties, and special districts. This limitation may prevent municipalities from reaching a financially feasible outcome.

Another dilemma in making the finances work for CRIAs is that 25% of the funds

involved in a CRIA must be spent on affordable housing improvements or construction. (CRIA, 2016) Since certain development proposals may necessitate the full property tax increment amount to reach financial feasibility and repay the bonds, the requirement to use a quarter of the CRIA funds on affordable housing may preclude such development. For example, the estimated tax increment in a given area may be \$100 million, but only \$75 million would be available for economic development projects that would generate the funding. Since \$25 million of the tax increment must be used on affordable housing, the proposed project scope may not be feasible without other financial enhancements.

Included in CRIA law is the provision that the public may protest against the CRIA every 10 years. If at least 25% of the property owners and residents within the CRIA plan area protest the CRIA, then an election is required. If a majority of the property owners and residents within the CRIA plan area vote against the CRIA plan, then the CRIA must stop implementing that particular plan. For example, if San Jose had a CRIA with a plan area around Diridon Station, and a majority of the residents within that plan area voted against the plan, then the San Jose CRIA would be forced to stop implementing new projects at that plan area location. This would not affect other plan areas managed by the CRIA. However, losing the ability to implement a plan in a given area may be a burden on the resources of the CRIA, because while tax increment and bond payments would continue for projects in that area, there would be no future progress in improving the plan area with additional projects.

CRIAs cost money to operate and maintain. Staff is required to seek development proposals, entice businesses to locate within the CRIA plan area, and service the ongoing bond debts. CRIAs must also undergo regular audits and provide status reports to maintain transparency with the public. These requirements may be too costly and difficult to overcome for

CRIAs to be feasible in certain situations.

Third-party consultants may be expensive for studying CRIA feasibility, however, these consultants may be the only people with the expertise and experience to successfully implement a CRIA.

Under prior redevelopment law in California (Black, 2014), cities could create redevelopment areas and force other taxing entities into giving up their portion of tax increment to repay the bonded indebtedness that funded redevelopment projects. However, with the dissolution of RDAs and the passage of AB 2, taxing entities may now choose to participate or not participate in CRIA tax increment financing, with one exception: schools. By law (CRIA, 2016), school districts including community college districts can no longer participate in the tax increment financing of CRIA projects. Since the property taxes that go to school districts constitute a significant portion of the total property taxes, (Lefcoe & Swenson, 2014) the loss of the school district portion of tax increment is a major hindrance to making CRIAs financially feasible.

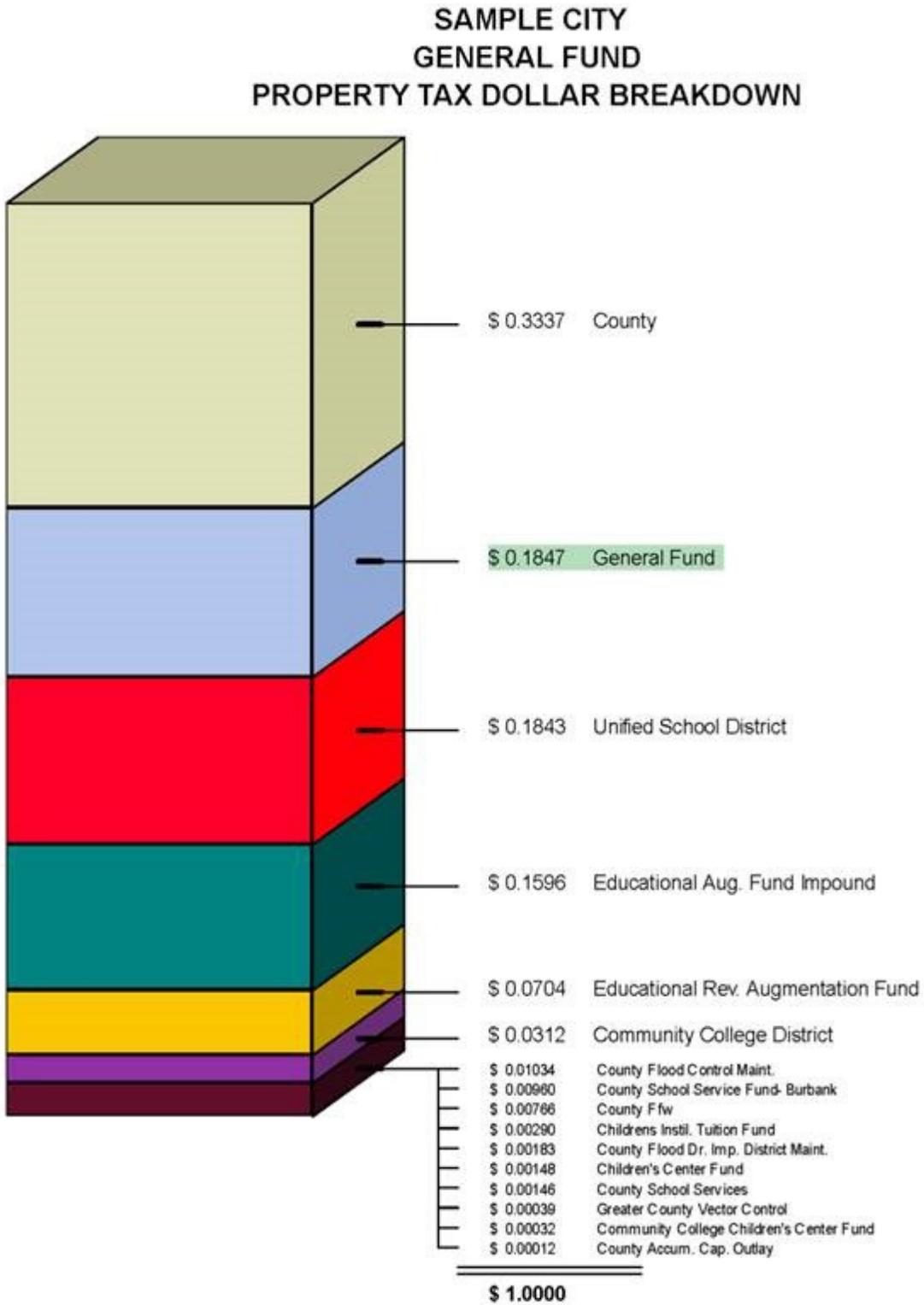


Figure 2: Sample Real Estate Tax Dollar Distribution (HdL Companies, n.d.)

Since taxing entities, such as counties and special districts may decide whether or not to participate in CRIA project financing, many may choose to either benefit from increased property taxes or remain content with the fact that development may not occur at all. Although it may be possible for CRIA development projects to become reality without the support of tax increment financing from multiple taxing entities, the lack of full participation may be a detriment too challenging to overcome for some developments, given that each new real estate tax dollar only generates a small percentage of income for all CRIA-related costs, including repaying the bonds and allocating 25% for low income housing. CRIA host agencies will also realize some additional operating expenses related to service provision for the new activities in the CRIA, further limiting the amount of the real estate tax increment available for bond repayment. Since the state has forbidden the development of high sales tax generators in CRIAs, such as car dealerships and malls (over 5 acres), there are few funding options left for CRIA to be financially sustainable.

Even when taxing entities are in favor of participating in CRIA financing, there may be disagreement among entities or among other stakeholders regarding the location and boundaries of a given CRIA plan area. Where there are competing interests for the geographic location of the CRIA area, the disagreements may lead to an impasse between taxing entities that is difficult to resolve.

The following example illustrates a fundamental flaw in CRIA feasibility using estimates for a typical affordable housing project in Silicon Valley:

Assumptions:

1. The CRIA plans to issue bonds to fund the construction of affordable housing and use the rental income and the City's share of property tax increment to pay the bond debts. The

payment of bond debt is like a "mortgage" payment.

2. Cost per affordable housing unit = \$600,000 (Corsiglia, 2017)
3. Total cost for a new, 40-unit affordable housing complex is  $40 \times \$600,000 = \$24,000,000$
4. Previous property tax value is \$0 because it is city-owned
5. Annual property tax is 1% of \$24,000,000 = \$240,000 (California Tax Data, 2005)
6. The property tax increment is the difference between the property taxes after development and the previous property tax value:  $\$240,000 - \$0 = \$240,000$
7. Monthly property taxes are \$240,000 divided by 12 = \$20,000
8. "Mortgage" rate for paying off the \$24,000,000 project is an estimated 4.75% (Bankrate, 2018)
9. Mortgage term is 45 years, the maximum that CRIA allows.
10. Total monthly mortgage payment, including the principal and interest, is \$107,764 (Karl Jeacle's Mortgage Calculator, 2018)
11. The City's share of tax increment income is 18% of the total property tax increment (see Figure 2):  $18\% \text{ of } \$20,000 = \$3,600$  per month
12. Rental income per unit is \$1,300 per month (Silicon Valley Independent Living Center, 2016)
13. Total rental income for all 40 units is  $40 \times \$1,300 = \$52,000$  per month
14. Combined income between the City's tax increment and the rental income is \$55,600 per month.

Since the total monthly income of \$55,600 is less than the total monthly "mortgage" of \$107,764, it becomes apparent that the use of tax increment financing for affordable housing projects is not financially viable, especially when the property tax rate for the city is merely 18%

of the total property tax rate. Affordable housing projects may only be viable when there are other outside subsidies such as federal, state, non-profit, or private funding sources. In the example above, the minimum subsidy required per month is at least \$52,164, or over the course of 45 years, is at least \$28,168,560, which is more than the original cost of the project. The \$107,764 monthly expenses do not even count the cost of operating the CRIA, maintaining and repairing the affordable housing, insurance costs, permitting costs, and other expenses associated with affordable housing projects.

*5. Alternative economic development tools may be more appropriate.*

The main two tax increment financing-related economic development tools are CRIAs and EIFDs. Although there are other tools available, this research focused on CRIAs with EIFDs as a major alternative. A comparison of CRIAs to EIFDs is necessary to understand how EIFDs may or may not be more appropriate in a given situation. Kosmont Companies (2018a) created a chart of EIFD and CRIA differences which may be summarized as follows:

For EIFDs, any property is eligible, whereas CRIAs must meet certain income, crime, unemployment, and other requirements. EIFDs are clearly superior whenever there is difficulty in meeting location-based eligibility requirements.

When an EIFD is formed, there is no requirement for voter approval. The same applies for CRIAs. However, CRIAs are “subject to majority protest at adoption and every 10 years.” (Kosmont, 2018a) As discussed above, protests may be a hindrance to the continued progress for additional CRIA projects. Therefore, EIFDs are preferable when there is a greater likelihood of voter opposition to an economic development project.

EIFDs require that at least 55% of registered voters (for areas containing at least 12

registered voters), or landowners (who receive 1 vote per acre) approve the issuance of bonds. (Kosmont, 2018a) CRIAs have no such requirement for voter approval of bond issuance. As the bond issuance is integral to accomplishing the development that would lead to the tax increment that underwrites the financing, this may make CRIAs more attractive to governing bodies, especially when there is uncertainty regarding voter opinion on bond issuance.

EIFDs do not require any portion of the tax increment to be used for affordable housing. (Kosmont, 2018a) As stated above, CRIAs require that at least 25% of the financing must be used for affordable housing projects. Advocates for affordable housing would argue that the requirement for funding affordable housing is a necessary element and a benefit of using a CRIA. (Villaraigosa, 2017) However, for maximum flexibility, EIFDs may offer the most advantageous option for funneling all of the development proceeds into the repayment of development costs.

EIFDs and CRIAs must both undergo regular financial audits, except for the case of EIFDs that do not have bonds issued. (Kosmont, 2018a) CRIAs also have annual reporting requirements. This difference between EIFDs and CRIAs is relatively marginal. However, the additional reporting requirements for CRIAs may impose additional minor costs.

Where EIFDs may not acquire land through eminent domain, CRIAs have that power, but only “within 12 years of formation.” (Kosmont, 2018a) When eminent domain is a necessary component of a redevelopment or economic development project, CRIAs are obviously the only option.

EIFDs have the option of allocating funds for “facilities outside of plan boundaries, ... but must have a tangible connection to the work of the district.” (Kosmont, 2018a) CRIAs allow no such provision. Thus, EIFDs are unique in this provision and may be considered favorably as

alternatives to CRIAs when offsite improvements are needed to support the CRIA activities.

### **Opportunities**

Although there are many challenges and obstacles in forming CRIAs, there may be opportunities for either improving feasibility or in identifying creative scenarios in which CRIAs may actually make sense. Experts that have fully analyzed the challenges of implementing CRIAs have concluded that one opportunity for improvement is through new legislation to increase the power and flexibility of CRIAs. (City of San Diego, 2016) As an example of a creative scenario to improve the likelihood of CRIA implementation, cities can use non-monetary incentives to incentivize other taxing entities to participate in the tax increment financing. In such a case, the CRIA plan might include the construction of amenities or infrastructure that is politically favorable to the other taxing entity. There are countless ways to negotiate the details of the involvement of taxing entities, including using a tiered approach to regaining portions of their property tax increment distributed over the course of the financing period.

For those municipalities contemplating the implementation of a CRIA, the following checklist in Table 3 below may be used to determine whether a CRIA is suitable for a proposed development area.

Step #	Answer the following questions and proceed as indicated in the right-most columns.	If Yes, Proceed to Step #	If No, Proceed to Step #
1	Is the proposed CRIA in a jurisdiction with a Successor Agency without a Finding of Completion.	14	2
2	Is the area characterized as a deteriorated military base?	6	3
3	Is the area considered a “disadvantaged community”?	6	4
4	Is the area at 80% or less of annual median household income vs. the state, county, or city?	5	14
5	Can at least 3 of the following 4 requirements be met:	6	14
	Is the unemployment rate at least 3% higher than statewide median?		
	Is the crime rate at least 5% higher than the statewide median?		
	Does the area contain deteriorated or inadequate infrastructure?		
	Does the area contain deteriorated residential or commercial structures?		
6	Is it acceptable to spend at least 25% of the financing on affordable housing?	7	14
7	Will it be necessary to impose eminent domain after 12 years of the inception of the CRIA?	8	14
8	Is it expected that a majority of the public will oppose the CRIA plan area?	14	9
9	Is it necessary for the bonds to be paid off in more than 45 years?	14	10
10	Is there an RDA successor agency that has not yet received a letter of completion from the state department of finance?	14	11
11	Is there expected to be cooperation from other taxing entities to participate in the tax increment financing?	12	14
12	Will the estimated tax increment financing be sufficient to finance the proposed economic development?	13	14
13	A CRIA may be appropriate.		
14	A CRIA is not appropriate.		

## **VI. Conclusion**

There may be significant challenges in implementing CRIAs. Some challenges for CRIA implementation include existence of Successor Agencies without Findings of Completion, operational costs, the 25% affordable housing set-aside, difficulty in determining eligible locations, financial infeasibility, lack of cooperation with other taxing entities, the possibility of protests every 10 years that would threaten CRIA plan area progression, and the cost and work involved with regular, on-going audits and reporting.

With AB 2 and AB 2492 providing a means for tax increment financed economic development in limited areas, there now exists an option for redevelopment among some municipalities and counties. However, the research shows that only one municipality has been successful in forming a CRIA. All other municipalities that have considered CRIAs have either come to an impasse or decided to use other economic development tools to accomplish their goals.

Therefore, AB 2 and AB 2492 may not currently provide adequate and sufficient means for redevelopment and supporting the demand for affordable housing. Perhaps new laws will be introduced in the future, as proposed by experts. (City of San Diego, 2016) With time, the small number of remaining cities that have Successor Agencies without a Finding of Completion will pay off their financial obligations, and may then find the value of implementing CRIAs. These cities and others that are already eligible may eventually identify locations viable for CRIAs and follow the example of the City of Huntington Park in creating a CRIA. (City of Huntington Park, 2017)

For municipalities that need economic development tools that do not fit within the parameters of CRIAs, at least there are other options to consider, such as EIFDs.

**Acronyms**

AB = California Assembly Bill

CEPA = California Environmental Protection Agency

CEQA = California Environmental Quality Act

CRIA = Community Revitalization and Investment Authority

DRADSA = Dissolution of Redevelopment Agencies and Designation of Successor Agencies

EIFD = Enhanced Infrastructure Financing District

HSRC = Hazardous Substance Release Cleanup

OEHHA = Office of Environmental Health Hazard Assessment

RDA = Redevelopment Agency

SB = California Senate Bill

TIF = Tax Increment Financing

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