The History of RDAs in California and in Menlo Park

The California Community Redevelopment Act was created in 1945 to give local governments tools to address urban problems such as blight, degraded buildings and a lack of affordable housing. Redevelopment is a process that enables local governments to revitalize deteriorated and blighted areas. Redevelopment agencies develop a plan and provide the initial funding to encourage and attract private investment that otherwise wouldn't occur. Redevelopment activities create jobs and expand business opportunities, provide housing for families most in need, help reduce crime, improve infrastructure and public works, and cleanup of environmentally-threatened and rundown areas.

Revitalization of deteriorated areas does not happen on its own. Often, the private sector is reluctant to invest in such areas because the risk and costs associated with doing so outweigh the benefits. Redevelopment serves as a catalyst for private investment by providing the initial plan and seed money that ultimately breathes new life into areas in need of economic development and new opportunity by:

- Building or rehabilitating housing for working families
- Building and upgrading roads, water systems and other public works and infrastructure
- Building and rehabilitating community centers, parks, libraries, public safety buildings and other community facilities
- Helping small businesses create jobs by revitalizing older retail districts
- Revitalizing rundown or blighted neighborhoods, which can help reduce crime and increase opportunity for struggling communities

When redevelopment agencies improve deteriorated areas, property values within those areas rise, thus increasing property tax revenues. The increased property taxes resulting from redevelopment activity are referred to as "tax increment." State law allows redevelopment agencies to pledge tax increment so that they can repay bonds and other types of debt incurred to make investments in project areas. In essence, redevelopment agencies fund themselves when they make improvements to their communities.

Often, local taxing jurisdictions within a project area share in a percentage of the increase in property tax revenues resulting from redevelopment activities. Redevelopment agencies keep a greater portion of these increases in order to pay back the debt that was incurred to jump-start revitalization of an area. However, once the debt is paid off and the project area dissolved all taxing jurisdictions receive their proportional shares of the full amount of property tax from the increased property values.

Menlo Park's redevelopment area (see map) was established in 1981 when the City was searching for a way to address problems facing the Belle Haven neighborhood and had limited resources to do so. Housing deterioration, overcrowding and the high unemployment rate of area residents were seen as the major concerns that needed to be addressed. The original

project proposal indicated the area included "an undesirable mix of residential, commercial and industrial uses" and that some parts of the area were suffering from "advanced stages of physical decline." The physical blight and unemployment were accompanied by a relatively high crime rate compared to the Bay area and City police were concerned about increasing symptoms of the presence of gangs.

Redevelopment funds have had a profound impact on these issues. A new development of 47 energy efficient homes surrounding a community park now sits on a former industrial sight amidst an otherwise single family home neighborhood. A high tech campus for one of the world's leading internet companies now occupies a former vacant lot. A child care center, a library and a community pool now occupy the heart of the neighborhood. Paved streets with trees and sidewalks have replaced poorly constructed, deteriorated roads with no sidewalks, curbs or amenities. Other projects in the area have focused on improving housing conditions, adding public facilities such as parks and community centers, streetscape improvements, eliminating blighted commercial buildings and developing a new commercial district. In addition, each Redevelopment Implementation Plan, which is updated every 5 years based on community input, has provided planning and other projects to promote employment, eliminate blight and promote educational opportunities. Since 2001 alone, over $40,000,000 in capital projects have been completed and over $1,000,000 annually has been allocated in support of ongoing programs that fight drug and gang activity, reduce graffiti, support code enforcement and promote fair housing and provide employment training opportunities.

Achievements include:

- Construction of the Belle Haven Child Development Center
- Construction of Ivy Drive Plaza
- Construction of Willow Corners Commercial Development
- Construction of the Belle Haven Library
- Streetscape along Hamilton Ave
- Construction of the Menlo Park Senior Center
- Construction of the Onetta Harris Community Center
- Renovation of Kelly Park and Field
- Construction of a park and 47 new homes on Hamilton Ave
- Overall neighborhood streetscape improvements including new curb and gutter, sidewalks, trees and roadways
- Belle Haven school field improvements
- Incentives for development of the Sun Microsystems campus, now the home of Facebook

Pictures of RDA Projects

Current and future projects in the 2009-2014 Redevelopment Implementation Plan include:

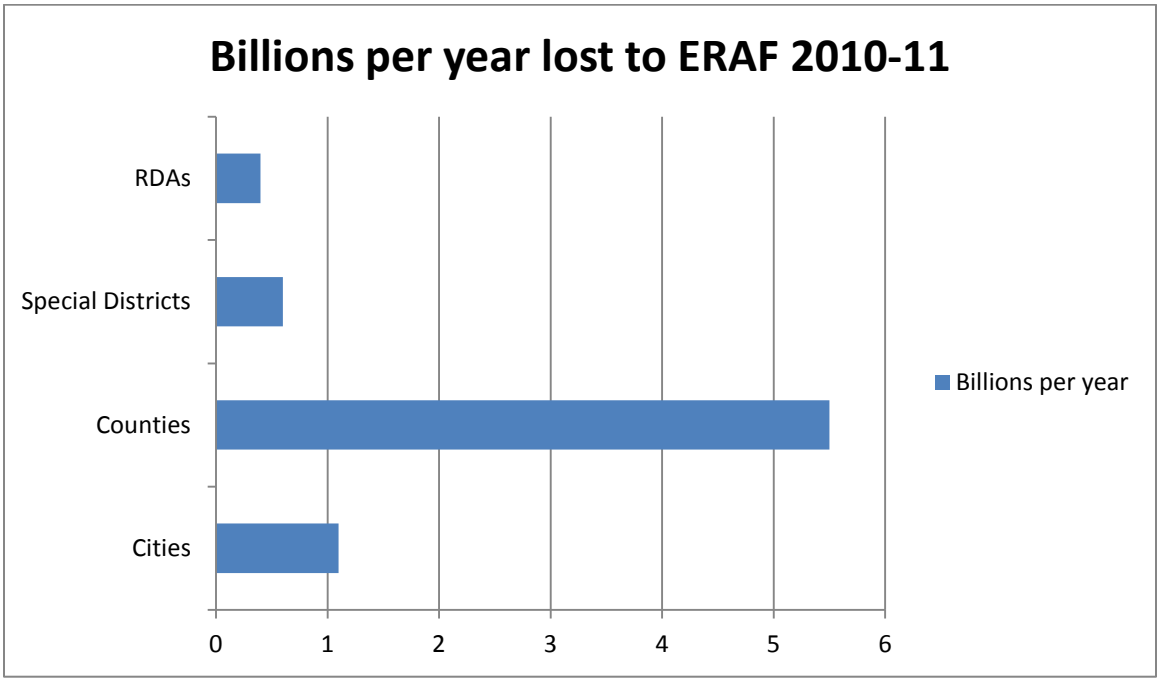
Project	Total cost
Atherton Channel Flood Abatement	$2,300,000
Belle Haven Pool Improvements	$50,000
Entry signage Willow and Marsh Roads	$200,000
Dark Fiber Pilot Project	$50,000
General Plan Update	$330,000
Dumbarton Transit Station	$1,000,000
Hamilton Ave Housing Phase I	$110,000
Haven Avenue Lighting	$50,000
Highway 84 / Willow d Bike / Ped Underpass	$900,000
LED streetlight conversion	$250,000
Park Pathway Replacement	$36,000
Marsh Rd Business Area Planning phase I	220,000
Newbridge / Willow traffic improvements	$100,000
Community Center campus solar	$400,000
Haven Avenue Streetscape	$550,000
O'Brien Drive Streetscape	$500,000
Pierce Road Streetscape	$500,000
Willow Road Streetscape	$330,000
Other area streetscape	$2,000,000
Willow Business Area Planning	$198,000
Willow Rd Signal Interconnect	$300,000
Total	$10,399,000

Threats to RDAs

In 1992, in the face of serious financial difficulties, the State began shifting city, county and special district property tax revenues to local schools through deposits from RDA's into the Educational Revenue Augmentation Fund (ERAF). This continued throughout the '90's. Even as ERAF contributions were increased, redevelopment, in particular, came under attack by the state, which continued to struggle with financial issues.

After the tech bubble burst in the early 2000's the State faced more severe budget problems and began to shift other local government revenues as well. Reacting to ongoing threats to local revenues, the voters of California voted in 2004 (Prop 1A) with an unprecedented 84% yes vote, to protect municipal revenues (property tax, local sales tax, etc) from the state. However, Prop 1A did not protect redevelopment revenues, which left RDAs even more

vulnerable to State takes. California's "redevelopment raid," which totaled $1.7 billion in 2009-10, cost Menlo Park's redevelopment agency over $3.4 million.



In November 2010, Proposition 22 was passed by over 61% of California voters. The purpose of Proposition 22 was to end, once and for all, the State's practice of balancing the State budget with local tax revenues. It prohibits the Legislature from requiring a redevelopment agency to pay its tax increment to or for the benefit of the State, any agency of the State, or any school district, community college district, city, county or special district. (link to text of prop 22; shows both legal language used prior to passing of prop 22 and after law was passed)

Impact of 2011-12 State Budget on Redevelopment Agencies

The new state budget resolved the question of whether lawmakers and the governor would once again try to tap Redevelopment Agency (RDA) revenues to help close California's deficits. Indeed, the 2011-12 State budget process purportedly kicked off the long-term work of restoring fiscal balance to the state ... but at the cost of major changes to Redevelopment Agencies and other tools that cities and counties have relied on to promote economic development.

As of the end of 2010, the economic climate of the past few years had left the State of California with a $25.4 billion budget problem – an $8.2 billion deficit that would remain at the end of fiscal year 2010-11, as well as an estimated $17.2 billion gap between revenues and expenditures in 2011-12. Expiration of one-time and temporary budget solutions approved in recent years, along with the failure to obtain significant federal funding for key programs, meant that elected leaders could not delay imposes strict budget measures.

Early in the State's budget-building process, newly-elected Governor Jerry Brown proposed a mix of expenditure reductions and tax increases to address the shortfall. The plan relied on the extension of four temporary tax increases adopted in February 2009, which would require passage by the voters in a June 2011 special election. The broad set of budget cuts proposed touched nearly every area of State funding. And a significant redistribution of local property tax revenues was put forward via the elimination of the state's local redevelopment agencies. The governor's proposal included (1) dissolving the state's 425 redevelopment agencies, and (2) transferring their revenues (over $5 billion of annual property tax revenues) to local "successor" agencies. The successor agencies would use these funds to retire redevelopment debts and contractual obligations and redirect remaining revenues to other local governments in the county, including K-14 education and fire service districts.

In response to the threatened elimination of redevelopment agencies, the Community Development Agency of the City of Menlo Park took steps to preserve existing agency assets and uncommitted tax increment by contractually affirming the existing City/Agency relationships. In February, the City Council/Agency Board approved a ***Redevelopment Services Agreement*** between the City and the Agency which provides for services historically provided to the project area by the City, including narcotics enforcement, code compliance, planning, blight remediation and business development services. Similarly, a ***Public Improvements Grant and Cooperation Agreement***, which funds a list of public infrastructure/facility improvements (capital projects) based on the City's 5-year Capital Improvement Plan and the Agency's 2009-2014 Redevelopment Implementation Plan. (links to staff reports 11-018 and 11-019 2.8.11 meeting)

In the flurry of budget activity in the last days of the fiscal year, a handful of last-minute trailer bills were passed as part of the State budget package. These bills included ABx1 26 and ABx1 27, together referred to as the Redevelopment Restructuring Acts. ABx 126, the "Dissolution Bill", largely reflects the governor's original proposal in suspending all redevelopment activities as of June 30, 2011, and dissolving all redevelopment agencies effective October 1, 2011. ABx 127, the "Voluntary Alternative Redevelopment Plan" allows agencies to remain in existence if the City "opts in" to the alternative plan by making significant, on-going financial contributions to schools and special districts. The intent of these payments would be to lower the State's commitments to education and other programs. In order to "opt in" to the Voluntary Program, a "Continuation Ordinance" needs to be adopted by each redevelopment agency by November 1, 2011. Menlo Park's RDA would need to pay $3,524,647 in 2011-12 under this "Voluntary

Program". The ongoing (annual) base remittance for Menlo Park in subsequent years would be approximately $829,000. However, because of the enormous investment in Menlo Park's redevelopment activities, progress in eliminating blight and the desire to continue to add to the assessed value of the redevelopment area, staff intended to recommend participation in the Alternative Redevelopment Program provided in ABx1 27. (link to summary of ABx1 27 from CRA)

On July 18th, the California Redevelopment Association (CRA), the League of California Cities (the League) and several individual cities jointly filed a law suit with the California Supreme Court, challenging the constitutionality of the Redevelopment Restructuring Acts, contending that ABx1 26 and ABx1 27 were unconstitutional in that they violate Proposition 22. They requested that the Court issue a stay, suspending the effectiveness of the bills until the Court could rule on its constitutionality. The CRA and the League also asked the court to expedite the case so that a decision could be rendered by the Court in advance of January 15, 2012, when the first payments under the Voluntary Alternative Redevelopment Plan are due. (Summary of RDA Lawsuit; News Release Re: Supreme Court; State Files Response to RDA)

On August 11th, the Court agreed to review the petition and issued a stay of certain provisions of the bills. Until the Court can determine the constitutionality of the bills, anticipated by January 15, 2012, the stay postpones the effectiveness of the Voluntary Program in its entirety. But the Dissolution Bill is still largely in effect, and redevelopment agencies are prohibited from activities except in connection with existing enforceable obligations. On August 23rd, the City Council approved an "Enforceable Obligation Schedule" to allow for payment of the agencies expenses while these legal issues are resolved. Enforceable obligations generally include indebtedness of the Agency that would be eligible for payment even if the Agency were dissolved, such as bond payments, tax increments shared with other agencies, and essential City services provided under the Redevelopment Services Agreement between the City and the Agency approved early in 2011. (link to staff report and revised EOS #11-138 from 8.23.11 meeting).

An unintended consequence of the court's action is that redevelopment agencies like Menlo Park's that did not "opt in" prior to the stay now appear to be prohibited from taking such action. In consultation with the City Attorney and the Agency's special counsel, Staff recommends that the City Council adopt a continuation ordinance for the agency's activities, conditioned upon the court's lifting of the stay and finding that the Redevelopment Restructuring Acts are constitutional. Similarly, staff recommends that an "Agency Transfer Payment Agreement" between the City and the Agency be approved. The agreement would insure that the necessary tax increment revenues are available to the City to pay the initial remittance payment should the Acts be determined to be constitutional. These items will be brought to the City Council meeting on September 13th. (link to staff report #11-158 from 09-13-11 meeting)

The fiscal impacts of the "Voluntary Program" are severe, and will greatly curtail the ability of the Agency to carry out activities and projects as outlined in the 2009-2014 Redevelopment

Implementation Plan. However, there is still much to be done in order to enhance the overall living environment of the project area. In addition to planned infrastructure improvements, continued City services (including narcotics and gang abatement, code enforcement, business development and various planning activities) are needed to ensure safe and sanitary surroundings, encourage private sector investment and increase local employment opportunities in the area. Dissolution of the Community Development Agency would mean that tax increment funds would be unavailable to maintain these essential services; the estimated impact to the City's General Fund is over $1.5 million annually. While the City currently has a balanced budget, the wholesale elimination of this funding would require a significant change in the services the City is able to provide citywide. The breadth and scope of facility and infrastructure projects directed to the Agency area would surely be limited, necessitating a reevaluation of all Capital Project funding, and an immediate curtailment of some capital projects.

Menlo Park Community Development Agency	Total Budget **2011-12**	
Taxes	10,200,000	(1)
Interest and Rent Income	210,000	
Other Financing Sources	162,000	
Total Revenues	10,572,000	
Debt Service:		
Interest Expense	3,466,295	
Fiscal Agent Admin Fees	66,000	
Payment of Bonds	1,880,000	
Total Debt Service	5,412,295	
Pass-thru Payments to Other Agencies	2,468,900	
Housing Authority Operations	1,240,959	(2)
Redevelopment Srvs Agreement (Non Housing)	1,463,085	(3)
County Tax Administration	89,600	
City Administration Overhead	304,959	
Subtotal Operating Expenditures	10,979,798	
Net Revenue	(407,798)	
State "Continuation" Remittance	***3,524,647***	

(1) Represents approximately 8.2% decrease from 2010-11
(2) Includes $500,000 committed for Rehabilitation Loans
(3) Includes $976,500 for Police Services, $72,000 for shuttle program

The State's attempts to abolish redevelopment agencies have raised important issues including: the loss of permanent jobs, the loss of a key local government tool for meeting state environmental land use objectives; and the loss of one of the state's leading tools for building workforce housing. For more information about the impacts of the loss of redevelopment agencies, go to www.ProtectOurLocalEconomy.com. For questions and answers about the State's proposal to abolish Redevelopment Agencies and the jobs they create, click here: Questions & Answers.