CALIFORNIA DEBT ADVISORY COMMISSION

Recommended Practices for California Redevelopment Agencies

CDAC 95-5

MATT FONG STATE TREASURER AND CHAIRMAN

RECOMMENDED PRACTICES

FOR

CALIFORNIA REDEVELOPMENT AGENCIES

Prepared for the
California Debt Advisory Commission

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CALIFORNIA DEBT ADVISORY COMMISSION

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TABLE OF CONTENTS

EXECUTIVE SUMMARY ..... **i**

SECTION I - CURRENT REDEVELOPMENT ENVIRONMENT **1**

CHAPTER 1 - INTRODUCTION 3

Report Goals 3

Report Structure 4

CHAPTER 2 - LEGAL FRAMEWORK 5

Creation of a Redevelopment Agency 5

Redevelopment Plan Adoption 5

Redevelopment Powers and Development Incentives 7

Affordable Housing 11

Changing Redevelopment Practices 12

CHAPTER 3 - REDEVELOPMENT AGENCY ORGANIZATION 15

Relationship of RDAs to Local Governments 15

RDA Functions 15

SECTION II - RECOMMENDED REDEVELOPMENT PRACTICES **19**

CHAPTER 4 - REDEVELOPMENT AGENCY MANAGEMENT 21

Adapt Private Development Management Techniques 22

Conduct Strategic Planning 25

Monitor the Local Real Estate Market 29

Evaluate Project and Program Performance 30

Communicate Results to the Public 32

CHAPTER 5 - ECONOMIC DEVELOPMENT 33
Participate in Local Economic Development 34
Develop an Appropriate Mix of Strategies 36
Streamline Regulations and Permitting Procedures........ 40
Conduct Business Outreach and Promotion 42
Incorporate Job Training and Social Services 44
Maximize Financial Assistance 46
CHAPTER 6 - COMMERCIAL AND NEIGHBORHOOD REVITALIZATION........ 49
Develop Market-Driven Strategies and Projects........ 50
Create a Sense of Place 55
Advocate for Improved Public Services 56
Target RDA Problem Solving Assistance........ 58
CHAPTER 7 - AFFORDABLE HOUSING........ 61
Assess Project Area Housing Needs 64
Maximize the Effectiveness of RDA Housing Investment........ 67
Develop Expertise in New Forms of Housing 70
CHAPTER 8 - DEBT AND FINANCIAL MANAGEMENT 73
Developing a Debt Management Policy 74
Formulate a Debt Management Policy Statement 75
Establish Criteria for Prioritizing Project Area Expenditures........ 76
Provide Guidelines for Debt Issuance........ 77
Require a Staff Evaluation Report for Each Debt Issuance........ 82
Review Financial Situation and Debt Policy 84

Implementing a Financial Management Program.... 85
Conduct Annual Analysis of Debt Capacity.... 86
Adopt an Investment Policy.... 92
Monitor the Tax Base.... 95
Disclose Financial Data to Secondary Market.... 97
SECTION III - REDEVELOPMENT IN THE FUTURE 99
CHAPTER 9 - NEW DIRECTIONS FOR REDEVELOPMENT.... 101
Redevelopment During Economic Dislocation 101
Sustainable Development.... 107
Transit-Oriented Development 107
Obsolete Industrial Areas.... 108
Underutilized Big Boxes.... 108
CHAPTER 10 - FUTURE CHALLENGES FOR REDEVELOPMENT.... 111
Redevelopment's Cycles of Interest and Reform.... 111
Suggested Issues for Further Consideration 111
APPENDIX A - ILLUSTRATION OF DEBT CAPACITY ANALYSIS 115
APPENDIX B - BIBLIOGRAPHY 123
APPENDIX C - RESOURCES 127
APPENDIX D - CASE STUDY CONTRIBUTORS 135

EXECUTIVE SUMMARY

Introduction

During the past two years, redevelopment in California has come to a crossroads. As the State of California has faced its most challenging fiscal crisis since the Great Depression, attention has turned to redevelopment. This program, with a stable funding source and special powers, offers one of the only effective tools available to local governments to offset serious economic dislocation. Yet, some redevelopment agencies (RDAs) have been criticized for abusing the powers delegated to them by the State. In response, the Legislature adopted reform legislation, including AB 1290 (Chapter 942, Statutes of 1993).

Agencies across the state are now implementing the provisions of AB 1290. The California Debt Advisory Commission (CDAC) has commissioned this report to assist RDAs in this period of change by providing recommended practices and examples of innovation culled from redevelopment activities throughout California.

The goals of this report are as follows:

- To provide an overview of RDA operating practices and legal constraints placed within a historical context.
- To disseminate examples of successful, innovative practices nominated from RDAs across the State.
- To serve as a resource for RDAs to stimulate enhanced innovation.
- To provide management tools and guidance toward improving redevelopment practice in California.

Summary of Redevelopment Legal and Organizational Framework

Legal Framework. Since the California Redevelopment Law (CRL) granted redevelopment authority to cities and counties in 1952, cities and counties have been given a set of special powers to eradicate blighting conditions in urban areas. These powers - eminent domain, tax increment financing, and ability to assemble and sell property - distinguish redevelopment agencies from all other local government agencies in California.

The CRL creates a redevelopment agency (RDA) in every city and county which can exercise redevelopment powers in designated redevelopment areas. To activate the RDA, a city or county must adopt an ordinance and bylaws. In most instances, the legislative body of the city or county serves as the governing board of the RDA. Once the legislative body in a city or county establishes an RDA, it

can adopt a redevelopment plan governing the development of specific areas within the city's or county's jurisdiction. These areas are designated "project areas" under the CRL.

To adopt a redevelopment plan for a project area, the city or county must follow a multi-step process designed to ensure that the project area qualifies for redevelopment, and provide sufficient public disclosure regarding the proposed redevelopment plan. Adopting a redevelopment plan involves preparing a preliminary plan, preparing a preliminary report to document conditions of blight, conducting environmental review of the plan, obtaining community participation, and adopting the plan.

Once a community has adopted a redevelopment plan, the local RDA may exercise any of the redevelopment powers authorized by the CRL, including tax increment financing, eminent domain, and land assembly/sale of property to private parties. The RDA must also meet affordable housing requirements including spending 20 percent of its tax increment revenue on the production of housing for low and moderate income households.

Organizational Framework. Staffing of RDAs varies from a part-time consultant serving as RDA director to a full-time RDA staff with hundreds of personnel, depending on the size of the RDA and the city or county it serves. Some RDA staff structures are integrated with other local government functions, while others are organized as separate entities.

Irrespective of its size, each RDA staff generally performs similar functions including management and administration, project management, financial management, and legal compliance. A range of skills is required of RDA staff members and consultants, including real estate development, architecture, public finance, and affordable housing production.

Recommended Practices for Redevelopment Agency Management

1. Adapt Private Development Management Techniques. Redevelopment agencies should adapt successful private real estate development management techniques to fit public development circumstances. These include explicit statements of organizational goals, recruitment and training of skilled project managers, and risk management through on-going market analysis and product type diversification.

2. Conduct Strategic Planning. RDAs should conduct strategic planning on a periodic basis to provide long-term direction to projects and programs. Strategic planning involves identifying key participants, organizing a working group, conducting a community audit, assessing competitive advantages, creating a vision, setting goals and objectives, developing implementation strategies and an action plan, implementing the actions, and monitoring performance.

3. Monitor the Local Real Estate Market. RDAs should track basic market indicators such as vacancy rates, absorption rates, and rents/sale prices, to assist in assessing project feasibility and to improve tax increment forecasts.

4. Evaluate Project and Program Performance. RDAs should incorporate performance evaluation on an on-going basis into their activities and programs. This evaluation should be based on a series of pre-established criteria which reflect the activities being conducted by the RDA.

5. Communicate Results to the Public. RDAs need to effectively communicate the results of their actions to the public and key constituencies to encourage project and program support as well as to change community perceptions.

Recommended Practices for Economic Development

6. Participate in Local Economic Development. RDAs should become full participants in a city, county, or region's economic development planning and programming efforts.

7. Develop an Appropriate Mix of Strategies. RDAs should develop an appropriate mix of business retention, attraction, and development strategies to meet the needs of the local economy.

8. Streamline Regulations and Permitting Procedures. RDAs should encourage or coordinate efforts to streamline local government regulations and permitting procedures to improve the business climate in their project areas.

9. Incorporate Job Training and Social Services Programming. RDAs should recognize that sometimes social problems constitute a major barrier to economic development and should incorporate social service programming into their project planning, as appropriate.

10. Maximize Financial Assistance. RDAs should maximize their resources by structuring financial assistance with repayment features, terms and conditions stipulating other actions, or by combining RDA funds with other private and public sources of funds.

11. Conduct Business Outreach and Promotion. RDAs should conduct active business outreach and promotional programs to assist project area businesses.

Recommended Practices for Commercial and Neighborhood Revitalization

12. Develop Market-Driven Strategies and Projects. RDAs should develop market-driven strategies and projects by conducting market feasibility studies, identifying barriers, setting realistic goals, building community support, and marketing effectively.

13. Create a Sense of Place. RDAs should encourage the design of attractive places, including preservation of historic assets, to build a sense of identity in the project area.

14. Advocate for Improved Public Services. RDAs should take a leadership role in improving public service delivery to commercial and residential neighborhoods by establishing cooperative relationships with local service providers.

15. Target RDA Problem-Solving Assistance. RDAs should respond to solve problems and assist the private market in development activity as needed.

Recommended Practices for Affordable Housing Production

16. Assess Project Area Housing Needs. RDAs should participate in community-wide affordable housing needs assessments to identify specific affordable housing needs within project areas, and formulate housing strategies that meet those needs.

17. Develop Expertise in New Forms of Housing. RDAs should develop expertise in new forms of affordable housing with integrated social services. This expertise should emphasize both effective forms of service delivery and control of development and operating costs.

18. Maximize the Effectiveness of RDA Housing Investment. RDAs should maximize the effectiveness of their investment in affordable housing production in partnership with local government, non-profit organizations, and private developers.

Recommended Practices for Debt and Financial Management

Developing a Debt Management Policy

19. Formulate a Debt Management Policy Statement. RDAs should formulate a debt management policy statement to concisely state the goals and objectives of the RDA. The debt management policy should also describe how the RDA intends to bridge the gap between the financing needs of long-term redevelopment plans and the on-going use of limited financial resources.

20. Establish Criteria for Prioritizing Project Area Expenditures. The debt management policy should prioritize project area expenditures or provide guidelines for conducting this prioritization on a regular basis.

21. Provide Guidelines for Debt Issuance. The debt management policy should provide guidelines for the process of debt issuance and general criteria for issuance of debt. These should be closely followed whenever new debt issuance is being contemplated.

22. Require a Staff Evaluation Report for Each Debt Issuance. The debt management policy should require completion of a staff evaluation report prior to the issuance of any debt. This report should describe the project to be financed, evaluate the proposed financing versus other forms of financing, provide a pro-forma debt capacity analysis of the project area's ability to incur additional debt, and describe any developer agreements including potential conflicts with existing bond indenture covenants.

23. Review Financial Situation and Debt Policy. The debt management policy should state when and the extent to which a debt capacity analysis will be conducted and reported, and how often the policy should be revised.

Implementing a Financial Management Program

24. Conduct Annual Analysis of Debt Capacity. RDAs should conduct an annual analysis of debt capacity to monitor future potential resources for continued project area plan implementation.

25. Adopt an Investment Policy. RDAs should adopt a policy to guide their investment activities. The policy should provide guidance to ensure that the objectives of safety and liquidity of investments are met before yield is considered.

26. Monitor the Tax Base. RDA staff should closely monitor the tax base within each of its project areas to obtain early warning signals of declining property values.

27. Disclose Financial Data to the Secondary Market. RDAs should generate concise, readable presentations of financial data for disclosure to the secondary market.

New Directions for Redevelopment in California

Several emerging trends may affect RDA practices in future years. These include the use of RDAs to address economic dislocation from military base closures and natural disasters, a movement toward "sustainable development," the popularity of transit-oriented or urban village development, the decline in manufacturing resulting in large tracts of underutilized land, and the dilemma presented by closed "big box" retail facilities.

Since its inception, redevelopment activity in California has tended to follow cycles of interest and reform. As new urban problems develop and become the focus of RDAs, reforms are likely to follow. To survive the challenges that lie ahead, RDAs must strive to balance their extraordinary powers with their ultimate goal of promoting and protecting the public interest. The recommended practices contained in this report are intended to assist redevelopment agencies achieve and maintain that balance.

SECTION I

CURRENT REDEVELOPMENT ENVIRONMENT

CHAPTER 1: INTRODUCTION

During the past two years, redevelopment in California has come to a crossroads. The State of California has been facing its most challenging fiscal crisis since the Great Depression. In city after city and county after county, local government agencies are making painful cutbacks in public services as a result of lower local tax receipts and decreased funding from state and federal government.

As local revenue sources declined, attention turned to a program that has had a stable and reliable funding source: redevelopment. Since its emergence in the 1950s, and especially since the passage of Proposition 13, redevelopment has gained increasing recognition as one of the only effective tools available to local governments to offset economic dislocation. After the 1989 Loma Prieta earthquake in northern California and the 1993 Northridge earthquake in southern California, many RDAs have faced increased challenges to redevelop damaged housing and business centers. In addition, a new emphasis on redevelopment has arisen as a result of the more than 22 military bases in California that will close or undergo realignment by 2000. For many impacted communities, redevelopment offers an opportunity to implement base reuse plans in a "soft" economy.

At the same time, redevelopment agencies (RDAs) have been criticized for not fully meeting their mandate to spur economic development, remove blight, improve neighborhoods, and produce affordable housing. Redevelopment agencies have been under tremendous pressure to improve their performance, provide better linkages to other public policy and development activities, and produce successful investment outcomes. New legislation, including AB 1290 (adopted in 1993), has been passed to re-focus redevelopment activities and mitigate these criticisms.

The California Debt Advisory Commission (CDAC), which is responsible for monitoring public debt issues and providing technical assistance on public financing matters, has commissioned this report in an effort to assist RDAs in improving their practices. CDAC's efforts are targeted to coincide with the process of change initiated with the implementation of AB 1290.

Report Goals

This report is structured to meet the following goals:

- Provide an overview of RDA operating practices and legal constraints, placed within a historical context.

- Disseminate examples of successful, innovative practices nominated from RDAs across the State.

- Serve as a resource for RDAs to stimulate enhanced innovation.

- Provide management tools and guidance to improve redevelopment practice in California.

This report is not intended to be a textbook of redevelopment practices and procedures, as every RDA must respond to circumstances unique to its community and political structure. However, this report has been designed so that it can serve as a learning tool for practicing RDA staffs and policy makers, with additional suggested resources provided in appendices.

Moreover, this report is not intended to be an evaluation of redevelopment practice in California - such an undertaking would require an extensive analytical approach. However, because research for this report involved outreach via a survey of all California RDAs to solicit case studies, the compilation of material described herein can be considered a "pulse-taking" exercise. This kind of up-to-date review of interesting and innovative approaches to redevelopment should be repeated periodically as a way of continuing to "take the pulse" of agencies and refine redevelopment practices across the state.

Report Structure

The following document is structured to proceed from a broad overview of background material to specific categories of RDA practice. The report is divided into three sections. Section I provides an overview of the current redevelopment environment. It includes an introduction in Chapter 1, a summary of redevelopment in California from its inception through recent legislative reforms in Chapter 2, and a description of RDA organizational and operating characteristics in Chapter 3.

Section II contains a series of recommended redevelopment practices organized by topic. Chapter 4 presents recommendations for RDA management and organizational development, Chapter 5 details current and recommended practices for economic development, Chapter 6 addresses commercial district and neighborhood revitalization, Chapter 7 addresses affordable housing development practices, and Chapter 8 discusses recommended practices related to debt management and financial planning.

Section III offers an assessment of redevelopment in the future with Chapter 9 providing an overview of new directions for RDAs, and Chapter 10 discussing the likely evolution of redevelopment practices.

Appendix A provides a detailed example of a debt capacity analysis. A bibliography of materials used for this report is presented in Appendix B. Resources that further the goal of improving redevelopment practices, including a listing of published materials and organizations is presented in Appendix C. Contributors of case studies for this report are listed in Appendix D.

CHAPTER 2: LEGAL FRAMEWORK

Redevelopment authority was granted to cities and counties beginning in 1952, when the California Legislature created the initial framework for the California Redevelopment Law (CRL), Health and Safety Code Sections 33000 et seq. Since that time, the legislative framework, as well as the practices of cities and counties exercising redevelopment powers have evolved to reflect changing conditions in the California. As a result, the CRL has been the focus of numerous successful and unsuccessful reform movements. Most recently, the CRL was substantially revised by the Community Redevelopment Law Reform Act of 1993 embodied in AB 1290 (Chapter 942, Statutes of 1993).

This section provides an overview of the statutory framework under which redevelopment agencies currently operate. As set by statute, cities and counties have been granted special powers to eradicate blighting conditions in urban areas. These powers have created a unique legal framework which sets the practices of redevelopment agencies apart from all other local government activities in California.

Creation of a Redevelopment Agency

The CRL creates a redevelopment agency (RDA) in every city and county, which can exercise redevelopment powers in designated redevelopment areas. In order to activate this statutorily created RDA, the city or county must adopt an ordinance and bylaws governing RDA procedures. In most instances, the legislative body of the city or county serves as the governing board of the RDA. The CRL, however, does allow for an independent board to be appointed, with the approval of the legislative body, to oversee the RDA's activities.

Once the legislative body in a city or county establishes an RDA, it can adopt a redevelopment plan governing the development of specific areas within the city or county's jurisdiction. These areas are designated "project areas" under the CRL.

Redevelopment Plan Adoption

In order to adopt a redevelopment plan for a specific project area, the city or county must follow a multi-step process designed to ensure that the project area qualifies for redevelopment, and provide sufficient public disclosure regarding the proposed redevelopment plan. The overall process of adopting a redevelopment plan is described in detail below.

Preliminary Plan. The process begins with the delineation of a survey area, leading to the establishment of proposed project area boundaries and adoption of a preliminary plan for the project area. The preliminary plan establishes the boundaries of the project area and serves as a tool for notifying the public and affected taxing agencies that the city or county is proceeding with redevelopment.

Preliminary Report. Once the project area is identified, the RDA must demonstrate that the area is qualified for redevelopment, based on criteria regarding blight and urbanization. Blight, as defined by the CRL, has a very specific technical meaning which does not necessarily correlate with the public's perception of blight. In the most basic sense, a project area is blighted if, due to a variety of conditions, the area no longer functions economically or physically and the conditions cannot be remedied by the private market or government acting alone. An analysis of blight is required of the proposed project area in order to meet the legal definition.

In addition to being blighted, a project area also must be urbanized. This concept, which was added to the CRL in the 1980s, evolved as a result of some agencies using redevelopment powers to assist in the development of unimproved or vacant land. In order to eliminate these practices, the CRL now requires that a project area be predominantly urbanized; a project area consisting of mainly vacant land will not qualify for redevelopment.

As part of the redevelopment plan adoption process, the RDA must determine the financial feasibility of the redevelopment plan. A comparison of estimated costs of projects designed to eliminate blight with projected revenues is necessary to determine whether the plan is capable of achieving its goals.

Both the blight analysis and the financial feasibility analysis are prepared as part of the preliminary report on the plan. The preliminary report is the first public disclosure document prepared by the RDA, providing the community and the affected taxing agencies with the opportunity to review the RDA's future plans for the project area.

Taxing Agency Considerations. As amended by AB 1290, the CRL now mandates a schedule of pass-through payments to affected taxing entities for plans adopted on or after January 1, 1994. This represents a dramatic change by eliminating the formal fiscal review committee and negotiating process set forth by the old law. Existing pass-through agreements for plans adopted prior to January 1, 1994 are not affected unless the plan is amended after that date to add territory, increase the limit on tax increment revenue that may be received over the life of the plan, extend the deadline on incurring debt, or extend the deadline on redevelopment activities.

Environmental Review. At the same time that the RDA is preparing the preliminary report, an environmental analysis of the impacts of the proposed redevelopment plan should be taking place. Under the California Environmental Quality Act, the adoption of a redevelopment plan is subject to environmental review and, in most instances, will require the preparation of an Environmental Impact Report (EIR).

Community Participation. The CRL requires that the RDA consult with the community regarding the adoption of the redevelopment plan. Consultation can occur either through the formation of a project area committee, or through community consultations. If the proposed redevelopment plan permits the use of eminent domain

power to acquire properties in an area where a substantial number of low and moderate income persons reside, or if the plan contains a public project that will displace a substantial number of low or moderate income persons, a Project Area Committee (PAC) must be formed as set forth in the CRL.

The PAC is composed of residents, business owners, and community groups within the project area. This group serves as a consultation body on the plan adoption process and makes a formal recommendation to the city council or the board of supervisors on the adoption of the redevelopment plan. After plan adoption, the PAC continues to advise the RDA on implementation.

If a PAC is not required, the RDA must still consult with the community on the proposed redevelopment plan. This consultation can involve presentation to community groups, establishment of an advisory committee, or holding community meetings to seek input from residents, businesses, and other affected parties.

Plan Adoption and Implementation. All of these activities culminate in the adoption of a redevelopment plan, which vests in the RDA the various powers permitted under the CRL. Redevelopment plans are written to meet statutory requirements; they typically are general in nature and do not contain detailed programs. Lack of specificity is largely due to the RDA's desire to adopt a plan that is as flexible as possible and avoid a potentially lengthy plan amendment process. Thus, unlike a city's or county's general plan, which provides a blueprint for future development within a community, a redevelopment plan often lacks a clear picture of future goals as well as measurable steps for accomplishing these goals. This lack of specificity results in redevelopment practices which, in many cases, are reactive rather than proactive, and may not be closely integrated with the community's overall economic and development program.

Shortcomings in the redevelopment plan specificity can be addressed in the CRL's requirement that RDAs prepare implementation plans every five years. The implementation plans must include specific goals and objectives for the next five years. In addition, a year-by-year analysis of how the RDA plans to meet its housing obligations is required. The implementation plan must be adopted after a public hearing, and must also be reviewed at a public hearing sometime between its second and third year.

Redevelopment Powers and Development Incentives

Once a community has adopted a redevelopment plan, the local RDA may exercise any of the redevelopment powers authorized by it, including tax increment financing, eminent domain, and sale of property to private parties. Each of these powers is tightly controlled by legislation, and each imposes certain obligations upon the RDA utilizing them.

Tax Increment Financing. Redevelopment agencies may cause the redistribution of property tax revenues through the use of tax increment financing; this technique collects and applies future increases in property taxes directly to

project areas to eliminate blight. The amount of property taxes collected by taxing agencies such as local government, schools, and certain special districts, is "frozen" in the year that the redevelopment plan is adopted. Any additional taxes resulting from increases in the assessed valuation of property in the project area (net of the school share of the two percent pass-throughs for pre-AB 1290 project areas) become tax increment revenues available to the local RDA to fund redevelopment activities within the project area. In limited circumstances, tax increment can be used outside a project area for public improvements and affordable housing, if the expenditure benefits the project area.

Redevelopment Agency Powers

- *Tax Increment Financing*
- *Land Assembly and Eminent Domain*
- *Property Disposition*
- *Public Improvements and Other Development Incentives*

The use of tax increment financing to fund redevelopment projects presents a classic chicken-and-egg problem to RDAs. Most redevelopment agencies desire to initiate redevelopment program activities as soon as possible. The only revenues available to eliminate blight are from increases in property tax revenues that result from increased assessed valuation; yet blighted project areas, by definition, have stagnant or depreciating property values unlikely to increase without the assistance of redevelopment. If the project area meets the strict definitions of blight, then it will improve, and property values will increase, only through the extraordinary powers of redevelopment. "Start-up" capital is needed to begin the redevelopment process, however. The task facing such agencies is to convert a future long-term stream of tax increment revenue into dollars available upfront - debt financing is the classic solution.

The most traditional form of debt financing for public entities is the issuance of long-term tax allocation bonds. However, the bond market strongly prefers tax allocation bond issues to be backed by an existing tax increment revenue flow, not by the projected flow of future income. Thus, new projects have difficulty in obtaining financing through tax allocation bonds until a predictable revenue flow has been established. In general, bond financing becomes a viable option for financing major redevelopment program elements only after a solid annual tax increment revenue level has been achieved (often anywhere from three to ten years after a plan is adopted).

In the meantime, it may be possible for an RDA to borrow against its future tax increment flow from local sources who are more familiar with and have a greater stake in the project than the bond buyers. Local investors might be more willing to take the risk of investing needed front-end capital in the early years. Specifically, developers of major parcels in a project area and the community itself are possible sources of front-end capital. For example, developers might provide a letter of credit or other mechanism to, in effect, guarantee completion and protect bondholders against a failure to complete the private development. In this situation, it becomes possible to issue the needed bonds at the outset of development rather than following completion.

Another solution is for the developers or even the community itself to advance the needed funds (in a manner analogous to a construction loan) with the expectation of being reimbursed from the proceeds of the bond issue that will become feasible upon completion of development. In this analogy, the bond issue is the "take-out" or permanent financing.

Land Assembly and Eminent Domain. Land assembly is a key tool used by RDAs to stimulate redevelopment. This technique is used by an RDA to assemble parcels in situations where a private developer may not be able to acquire all of the land necessary for development through private transactions. Land acquisition by an RDA is controlled by statute and by constitutional principles to ensure fairness to property owners and existing tenants.

If an RDA is unable to acquire land through voluntary sale, the RDA may exercise its power of eminent domain, which can be used for the redevelopment purpose of eliminating blight. This critical RDA power allows for the acquisition of privately owned property for redevelopment purposes in cases in which property owners refuse to sell their land or when land assembly would otherwise be prohibited due to the number of parcels held by multiple owners. Often, use of the RDA's power of eminent domain is the most important contribution to a project that otherwise could not be implemented. When an RDA utilizes its eminent domain power, it must clearly document how the use of such powers will eliminate blight.

Once an RDA begins land acquisition or assists a developer in acquiring land or developing property, the RDA is responsible for relocating any businesses and residents to be displaced as a result of the activity. Relocation laws require the RDA to assist displaced businesses and residents in finding new locations which are comparable to their previous location. In addition, displaced residents and businesses are entitled to compensation for relocation expenses. For businesses, this includes moving expenses; for residents, relocation expenses include moving expenses and rent or mortgage subsidies if the household experiences an increase in housing costs as a result of the relocation. Regardless of whether the RDA acquires the land voluntarily or by eminent domain, the property owner must be compensated for the property at fair market value.

The relocation process presents an RDA with numerous challenges. Compliance with the requirements of

relocation laws is costly and time-consuming, complicating an already difficult development process. Additionally, relocation often raises negative public reaction from citizens, even if sensitively handled. Indeed, much of redevelopment's poor public image can be attributed to early redevelopment projects that involved the relocation of large numbers of people, thereby destroying whole neighborhoods. Although relocation will always carry negative connotations, RDAs that have been able to demonstrate the benefits of subsequent development to the community (including those people relocated) and have implemented the new project rapidly have dispelled much of the criticism.

Property Sale and Disposition. Under the CRL, an RDA may acquire privately owned property, either voluntarily or by eminent domain, and then dispose of the property to a private party at a reduced sales price (e.g., a land write down) or with other incentives for development in accordance with the redevelopment plan. Typically, the RDA will enter into an agreement with a developer which requires the developer to develop and operate the development in a certain manner. In some instances, the RDA's assistance to the developer will terminate with the assembly of land. The developer pays the RDA for the RDA's costs of acquiring the land, and the developer then finances and builds the development without additional RDA involvement.

By offering land write-downs, the RDA essentially provides a grant or long-term loan to the developer to reduce land costs, thus assisting the economic viability of the development. In order to meet the requirements of the CRL, an RDA must sell land for its reuse value, taking into account RDA requirements and development costs. Thus, any write down of land costs must be justified as necessary for the feasibility of the development. In essence, an RDA should not provide a land subsidy in excess of the amount projected to be necessary for the developer to realize a reasonable rate of return on its investment, given the RDA's requirements and the risks involved in the project.

Although the practice of land write-downs may seem to benefit primarily the private developer, courts have upheld it as primarily serving the public purpose by providing for the elimination of blight and redevelopment of the property. Consequently, the courts have deemed that the benefits to the private developer are incidental to the public purpose served.

Public Improvements and Other Development Incentives. The RDA will often provide other financial incentives to property owners and developers in order to attract development to areas that exhibit obstacles such as high crime rates, hazardous waste problems, adjacent undesirable uses, or poor public image. An RDA may assist an owner participant or developer by constructing public improvements necessary to stimulate private reinvestment throughout the project area, as well as construct facilities that will benefit a particular development or which are required as conditions of the land use approval. The CRL authorizes redevelopment agencies to construct streets, utilities, parks, playgrounds, and other public improvements necessary for carrying out the redevelopment plan. Additionally, an RDA may pay part or all of the cost of land and installation of any

building, facility, or improvement that will be publicly owned (although AB 1290 has limited the authority of RDAs to construct city halls).

Loans to private property owners or developers are another method of assisting development. Prior to the passage of AB 1290, the CRL did not specifically authorize RDAs to loan tax increment revenues for commercial purposes, although loans for the development of affordable housing were allowed. AB 1290 now allows an RDA to loan funds to owners or tenants for the purpose of rehabilitating commercial buildings or structures within a project area. Additionally, an RDA can assist in the financing of facilities or capital equipment as part of an agreement for development or rehabilitation of property within a project area that will be used for industrial or manufacturing purposes.

Other forms of assistance an RDA may provide to a property owner or developer include toxic remediation of a site and seismic rehabilitation of unreinforced masonry buildings. In addition, an RDA may provide low-cost financing for portions of the cost of a development project by issuing tax exempt bonds.

Affordable Housing

In addition to RDAs' obligations to eliminate blight, the CRL places an affirmative obligation on RDAs to increase and improve the supply of affordable housing in project areas. Since 1977, the CRL has required RDAs to set aside 20 percent of all tax increment revenues collected to increase and improve the supply of low- and moderate-income housing in a project area. A summary of affordable housing requirements is presented below.

Since establishing the housing set-aside requirement, the California Legislature has continually implemented stricter measures designed to ensure that RDAs spend their set aside for affordable housing in a timely fashion. Most recently, agencies that fail to expend accumulated housing set-aside funds may be prohibited from participating in any new activities until the set-aside is spent appropriately.

The CRL contains various restrictions on the expenditure of housing set-aside funds. Assistance from the housing fund must go to eligible households and expenditures of the housing fund must be targeted to specific income levels based on the needs of the community as demonstrated in its general plan housing element. Costs of housing assisted with the set-aside are regulated to ensure affordability to low- and moderate-income households. The restrictions on affordability and eligibility for households must remain in effect for minimum periods of time, usually tied to the life of the redevelopment plan.

In addition to the set-aside requirements, a housing production requirement designed to insure that a specified percentage of new and rehabilitated housing is available at costs affordable to low- and moderate-income households is also imposed on agencies. Under this requirement, 15 percent of all new housing developed in a project area, either by private parties or public entities other than the RDA, must be affordable to low- and moderate-income households. Of these affordable units, at least 40 percent must be affordable to very low-income households. This

production requirement applies to all units in the project area, regardless of whether RDA assistance is involved.

RDAs are also required to replace any residential units housing low- or moderate-income households that are destroyed as a result of redevelopment activities on a one-for-one basis within four years after the units are destroyed or removed from the market.

Changing Redevelopment Practices

Since the inception of the CRL, redevelopment practices have evolved in response to legislative initiatives which aimed to refine prior laws or correct perceived abuses. In addition, changing fiscal conditions in the state have prompted corresponding changes in redevelopment practices.

Focus Shifts from Blight Removal to Fiscal Shortages. Prior to the passage of Proposition 13, redevelopment was primarily used in the larger cities of California as a tool to remove slum conditions in the inner cities. Since the passage of Proposition 13 in 1978, cities and counties throughout California have turned to redevelopment as a method of providing increased funding for public improvements that were traditionally funded from the local governments' general funds. In fact, of the 665 project areas formed in California since 1952 (when tax increment financing was authorized), 364 were formed since 1976 (*Annual Report, 1991-92, Financial Transactions Concerning Community Redevelopment Agencies of California*, State Controller).

At the same time that property tax revenues have declined due to Proposition 13, local governments' needs for public improvements and services have increased as a result of population increases in the State. In an effort to find alternative revenue sources for public improvements, cities and counties have, at times, turned to redevelopment. Thus, RDAs, which initially focused on blight clearance, began initiating redevelopment projects which emphasized infrastructure improvements. For example, numerous agencies adopted plans for project areas which consisted of unimproved, vacant land, in order to fund the infrastructure improvements necessary for the development of that land. The result of this practice was an amendment to the CRL requiring project areas to be urbanized.

The decrease in property tax revenues resulting from Proposition 13 has also increased pressure on cities and counties to seek new retail development in order to generate additional sales tax revenues. The demand for sales tax revenue has encouraged the use of redevelopment as a method for providing incentives for large sales tax-generating retailers to locate in a particular city. Thus, the 1980s saw the rise of auto malls and "big box" retail uses in many redevelopment areas. RDAs in adjacent communities have sometimes competed against each other for the same sales tax generators, resulting in some cases of RDAs providing incentives to attract a retailer to their community even though the retailer might have located in the general trade area without incentives.

Pass-Through Agreements Raise Controversy. Proposition 13 impacts have been felt by all taxing agencies in California, including school and special districts that are dependent upon property tax revenues as a funding source. Prior to 1994, the CRL allowed RDAs to share a portion of their tax increment revenue with other taxing agencies through a negotiated agreement commonly known as a "pass-through agreement." The plan adoption process began to emphasize the fiscal impacts of the plan rather than the social and physical needs of the blighted project area. RDAs which attempted to adopt redevelopment plans that might not have met all of the requirements of law could limit the risk of a local taxing agency court challenge by providing the affected taxing agencies with an attractive pass-through agreement.

Impact of AB 1290. Although the negotiations between taxing agencies may have resulted in redistribution of funds to needed activities, it also sometimes subverted the checks and balances established in the CRL for ensuring the integrity of the redevelopment process. Many of the abuses resulting from the passage of Proposition 13, whether perceived or real, have been restricted by the passage of AB 1290, the Community Redevelopment Law Reform Act of 1993. A sweeping reform measure, AB 1290 changed many aspects of redevelopment in California. For example, the CRL definition of blight has been re-defined to more closely reflect the current situation facing California cities and counties. Under the new definition of blight, a project area must exhibit both physical and economic blighting conditions to qualify for redevelopment.

Key Provisions of AB 1290

- ✓ ***Changes Definition of Blight***
- ✓ ***Requires Implementation Plan***
- ✓ ***Creates Mandatory Tax Sharing Formula for all Taxing Agencies***
- ✓ ***Changes Housing Production Requirements***
- ✓ ***New Definition of Excess/Surplus***
- ✓ ***Adds Housing Reporting Requirements***
- ✓ ***Regulates Redevelopment Plan Time Period***
- ✓ ***Restricts Retail Development Projects***
- ✓ ***Restricts Public Facilities***
- ✓ ***Reforms Statements of Indebtedness***
- ✓ ***Prohibits Financial Assistance to Auto Dealers & Retail Uses on Vacant Land***

In addition, the conditions that qualify as blight have been revised to include situations that more closely resemble current problems facing California. For example, a high crime rate constituting a serious threat to public safety now qualifies as an economic blight condition; previously, the law required that a high crime rate be directly related to conditions of physical blight (e.g., overcrowding or deterioration). AB 1290 also eliminated the lack of infrastructure as a blighting condition, although RDAs can still use tax increment revenue to provide infrastructure.

AB 1290 also limited the ability of RDAs to develop sales tax-generating projects on previously undeveloped vacant land parcels of five acres or more. Beginning January 1, 1994, RDAs are prohibited from providing direct assistance to an automobile dealership located on a land parcel which has not previously been developed for urban uses. These two prohibitions were designed to eliminate use of redevelopment by competing communities to attract to vacant sites a major sales tax generator that would locate somewhere in the trade area in any event.

AB 1290 also eliminated the fiscal review process which allowed agencies to barter tax increment revenue in return for support of a redevelopment plan from taxing agencies. Under the new provisions, upon the adoption of a redevelopment plan, all taxing agencies are entitled to a statutorily mandated pass-through of tax increment revenues. The requirement for implementation plans every five years also originated from AB 1290.

For the first time, under AB 1290, the duration of redevelopment plans is regulated. Whereas prior to AB 1290, an RDA could adopt a plan with an indefinite term, under AB 1290, all new and existing plans must terminate within a certain number of years. AB 1290 also restricts RDAs' abilities to amend plans to extend the time limit.

AB 1290 redirects RDA activities toward targeted blight removal, economic development, and affordable housing production. Many RDAs have responded to this redirection in positive and innovative ways. The remaining sections of this report highlight these practices and suggest ways which RDAs could further meet the spirit of their mission.

RDAs in California are organized as distinct public agencies. This chapter provides an overview of RDAs' operating relationships with other local governmental entities as well as their internal organizational framework to set the stage for reviewing recommended practices by function within the RDA.

Relationship of RDAs to Local Governments

The RDA performs a unique function amidst the range of local government activities in California. Because RDAs have different legal powers than cities and counties, they are organized within a legal framework that places RDAs in a separate category from local government.

Governance. This separation begins with the RDA's governance. Many cities and counties have designated their respective elected governing bodies (e.g., a city council or county board of supervisors) as the governing body of their RDA, although this is not mandated by California Redevelopment Law. However, all activities of the RDA's governing body are distinct from the activities of a city council/county board of supervisors, even if the officials serving on both bodies are the same. In other words, the RDA Board must publish separate notices of meetings, formally open and close meetings, take action, and designate staff separately from the same elected officials' other governing duties.

Staffing. The staffing composition of RDAs can vary from a part-time consultant serving as RDA director to a full-time RDA staff with hundreds of personnel, depending on the size of the RDA and the city or county it serves. Many local governments in California have sought to integrate RDA staff with other local government functions, so that redevelopment activities are staffed by the same people conducting community development, economic development, and/or housing planning and development activities for the city-at-large. Other RDAs are staffed and organized as completely separate entities from their counterparts within related local government departments; this approach can provide the benefit of an enhanced focus on redevelopment project areas by RDA staff, but can lead to duplication of staff capabilities across city or county departments.

RDA Functions

Review of organizational charts for RDAs suggests that regardless of the RDA's staffing configuration, each RDA must generally perform similar functions, as follows:

- *Management and Administration.* These functions are usually performed by the RDA Executive Director, or, for smaller cities, by the City Manager, Assistant City Manager, or Community Development Director. In cases

where job responsibilities are combined, the person performing the role of RDA Executive Director may also be overseeing a variety of other local government functions such as long range planning and/or public works for the entire city.

- *Project Management.* This function, which involves oversight and daily management of projects, is usually performed by one or more project managers with backgrounds in architecture, business, public policy, or urban planning. Since many of a typical RDA's activities revolve around real estate development, staff providing project management functions perform functions similar to private sector real estate development project managers, including site acquisition, project planning, negotiations, and management of internal or external consultants and technical experts.

  An important part of a typical RDA's activities involves producing affordable housing via direct production or financial participation in housing projects sponsored by third parties. Some agencies have housing staff devoted specifically to these activities.

  Some of the larger agencies in California also employ staff with specialized expertise to provide internal capabilities in the areas of real estate development, architecture and design review, entitlement processing, loan administration, small business development, business attraction, industrial development, and retail revitalization.

  RDAs also typically employ a range of consultants with specialties in policy, finance, housing, real estate, engineering, environmental remediation, planning/design, and related technical areas. For property acquisition, RDAs employ real estate appraisers with specializations in condemnation proceedings.

- *Financial Management.* This function is often performed by a combination of RDA staff and outside consultants. Daily accounting and financial management activities are typically conducted within an RDA or other local government staff such as the City Finance Department. However, for the periodic issuance of debt, agencies draw on the expertise of specialized financial advisors, fiscal consultants (for tax increment forecasts and revenue sharing negotiations), and bond underwriters.

- *Legal Compliance.* Much of an RDA's work involves ensuring compliance with legal restrictions. From project area plan adoption (with its precise legal framework), to structuring Development and Disposition Agreements (DDAs) and Owner Participation Agreements (OPAs), to bond counsel for public debt instruments, RDAs often require outside legal assistance from one or more firms.

Section II of this report, which presents recommended practices, is generally organized in relation to these functions. The recommended practices are designed to assist managers in achieving greater efficacy and efficiency in their RDA operations.

SECTION II

RECOMMENDED REDEVELOPMENT PRACTICES

CHAPTER 4: REDEVELOPMENT AGENCY MANAGEMENT

In many ways, the structure and functions of an RDA resemble those of a private real estate development company. Both kinds of organizations deal with project acquisition, project planning, finance, construction, and marketing. To achieve development or redevelopment, both kinds of organizations are subject to land use and environmental regulation, public review, interest rate cycles, issues of market and financial feasibility, and the impacts of rising land values and construction costs. Both kinds of organizations must assess risks and their impacts, and both organizations must continuously monitor market conditions.

The primary distinction between RDAs and private development companies lies in each organization's mission. The mission of RDAs, as mandated by law, is to eliminate blight in urbanized areas through activities such as economic development and neighborhood revitalization. The mission of private developers, in contrast, is usually to maximize revenues and earn profits for its owners. From an economic standpoint, however, these different missions converge into the shared objective of adding value to land, albeit for different purposes. A second key distinction is that the RDA's development activities are carried out in the public domain, while most private development companies operate without public scrutiny or accountability.

While the mission and operating environment of RDAs and private development companies differ in some important ways, there are many management and organizational development techniques that RDAs can adapt from successful private development companies.

Adapt Private Development Management Techniques

Redevelopment agencies should adapt successful private real estate development management techniques to fit public development circumstances.

The Urban Land Institute (ULI), a professional organization dedicated to the enhancement of the development profession, studied the organization and management of private development companies and summarized its findings in a publication entitled *Managing a Development Company: Interviews with Successful Firms* (ULI, 1987). The following discussion summarizes ULI's findings as applicable to RDAs in their role as public developers, and provides a basis for considering the overall management and structuring of RDA activities.

Company Organization and Goals. One of the key findings of the study was that private firms were typically organized according to the preferences and in the style of their founders or current owners. Thus, for firms controlled by strong personalities with an entrepreneurial talent, organization followed a tightly controlled style, with all key decisions being made by the owner. For several companies, this organizational style was perceived as a potential long-term disadvantage; the companies found it difficult to transition to new management upon the founder's retirement or change in ownership. Moreover, efforts to grow and delegate authority were sometimes complicated by the centralized nature of decision-making, and many firms interviewed for the study cited their frustration with maintaining effective decision-making as they expanded.

Several firms responded to this organizational challenge by deliberately limiting their size and growth. Others created a management committee, enlarging the oversight responsibilities while still maintaining a central form of decision-making.

One of the primary resolutions to contemporary organizational challenges is strategic planning, which involves assessing competitive strengths, clearly defining the organizational mission and goals, and creating a long-term strategy for achieving the company's goals. Many of the successful private development companies interviewed for the ULI study had discovered that strategic planning, with a written document as the work product, helped them focus their development efforts and guided them through difficult transitions.

While RDAs face different organizational pressures, issues of growth, organization, and decision-making all impact the typical RDA's efficiency and effectiveness. Often, frequent changes in management, board membership, or political processes can alter the direction of an RDA, resulting in aborted project implementation or strategic mistakes. Growth in RDA size, as tax increments increase or project areas are added, can also lead to difficult transition periods. The concept of strategic planning, with clearly defined goals and objectives and a clear strategy for achieving them, may be applicable to many RDAs facing difficult development issues in urban areas.

Project managers are often the key to a project's success and redevelopment agencies should select staff with strong real estate development and finance, architecture, business, construction, or urban planning backgrounds. Cross-training RDA project management staff with specialists employed in the agency as well as in the broader local government arena is highly recommended as a way to round out project management skills. For smaller agencies lacking full-time project managers, the selection of qualified consultants or others designated as project managers can be critical to project success.

Project Management. Many of the firms cited in the ULI study felt that project managers were key to their success (or failure). The skills and experience of project managers were even more important than any particular style of management, and effective project managers were difficult to find.

Depending on their organizational makeup, firms tended to select either generalists or specialists for key project management positions. Generalists had backgrounds in business administration, typically including MBA degrees. Some firms preferred specialists with backgrounds in architecture, urban planning, marketing, or construction management. One of the interesting findings of the ULI study was that some firms strongly believed in "cross-training," where specialists in one area were rotated among functional areas to groom prospective project managers. In this way, persons with a background in architecture, for example, were exposed to financial management so that they could develop a broader understanding of the complexities of project development.

With respect to actual project management, the common approach reported by most firms was a strong reliance on the project's financial pro forma. This was viewed as a management tool, and most firms updated their pro-formas on a monthly (or even daily) basis. While this approach may not be practical for an RDA to adopt, it underscores the impact of financial issues on project management.

RDAs should at a minimum have the in-house or consultant capability to analyze financial pro formas on a continuing basis, monitoring financial feasibility from project start-up through construction completion and lease-up. Since RDAs depend on increases in tax increment, which arise from increases in assessed valuation, the indirect impacts of fluctuating market conditions on built projects are also important for RDAs to monitor; these fluctuations can directly impact future tax increment revenues if properties decline in value.

Risk Management. The ULI study highlights many factors which impact private developers as they conduct business in a changing environment. One of these, risk, is also applicable to RDA in its role as a public developer.

Risk in development arises from many interrelated sources including overbuilt markets or diminished demand, rising interest rates and construction costs, and non-performing development partners (i.e., private development firms experiencing financial difficulty).

Two of the ways private firms reportedly sought to reduce risk that may be applicable to RDAs were to intensively study the market on an on-going basis (especially prior to project selection), and to diversify product types to offset unexpected market fluctuations. The former approach is key to successful project development, and is discussed further in the following section. Product type diversification, which may be difficult for smaller RDAs, is an important consideration for larger agencies developing several projects simultaneously. For example, a larger agency may be able to choose to assist both retail and housing development in its downtown area (rather than several retail projects) simultaneously so that if retail sales and demand for space decline, the housing project may offset negative impacts to the RDA.

Conduct Strategic Planning

RDAs should conduct strategic planning on a periodic basis to provide long-term direction to projects and programs.

Overview of Strategic Planning. A strategic plan includes a comprehensive identification of affected parties, a clear definition of goals and objectives, a community or project area audit that assesses strengths and weaknesses, and a detailed implementation strategy.

Strategic plans should be designed to enable the RDA to adapt to sudden changes in the local and regional economy. A well conceived strategic plan links an RDA's (or community's) goals and resources with changes in the community's external environment, thereby positioning the RDA to take advantage of new opportunities as they arise.

The best strategic plans seek input from a broad range of groups and individuals. This process can be a learning experience that helps build community support for RDA activities. Thus, it is critical to include as broad a spectrum of participants in the process as possible. Because participants may have preconceptions and biases, an independent facilitator may sometimes be needed.

Relationship of Strategic Planning to RDA Practices. RDA strategic planning can be conducted in conjunction with other local government entities, or can focus exclusively on RDA activities. An RDA's strategic plan should acknowledge the agency's designated role within the local community for economic development, blight removal, and affordable housing production, either as the lead or as an implementing agency.

An RDA strategic plan can be prepared as a separate stand-alone document or can be incorporated into the implementation plan process mandated by AB 1290. The strategic plan can also be linked to other local government planning processes. For example, an RDA's strategic plan could be linked to the new Consolidated Plan being required by HUD; for many communities, the areas affected by redevelopment and HUD-funded activities overlap to some degree. It should also be linked to the local government's economic development strategy and housing element of the General Plan, and could become part of a jurisdiction's Overall Economic Development Plan (OEDP) required for federal economic development funds.

The Strategic Planning Process. The strategic planning process should include the following steps.

Identify Key Participants. Potential participants include elected officials, property owners, community-based organizations (CBOs), business leaders and associations, developers, financial institutions, venture capitalists, economic development and job training organizations, educational institutions, philanthropic organizations, and residents.

Organize a Working Group. Organize participants into an identifiable group with a clear mission. This group could be a Project Area Committee (in the case of a Redevelopment Plan), or another form of task force/steering committee.

Conduct a Community Audit. This establishes an understanding of the community's current economic and development conditions. A community audit assesses community image, demographic and labor force characteristics, economic conditions, real estate trends, educational and cultural resources, natural resources, quality of local government services, permit and entitlement procedures, infrastructure adequacy, and access to capital. Competing communities are also identified.

Data may be collected via published sources as well as through formal surveys, focus groups, and interviews with key informants. If the strategic planning process relates to an RDA's Redevelopment Plan, this step should incorporate the Redevelopment Plan's findings regarding blight and economic conditions.

Assess Strengths, Weaknesses, and Competitive Advantages. The community audit will lead to an assessment of the RDAs project areas and/or community's strengths and weaknesses. A key component of this assessment should be an effort to distinguish forces that are beyond local government influence (e.g., national and international economic conditions or federal reserve policy for interest rates) from those forces that RDA or local government can impact (e.g., inadequate infrastructure, transportation systems, and code compliance programs).

Based on this assessment, targeted economic sectors with a high probability of success can be identified. Competitive advantages and disadvantages presented by the community relative to other cities or regions competing for these targeted sectors should be documented. This will lead to a capability to position the community relative to competing areas, and mitigate known competitive disadvantages.

Formulate a Vision. Based on the information collected through the previous steps, this step involves establishing a consensus answer to the question: "What should our project areas or community be like in 20 years?" The vision statement should be realistic, and should recognize competitive disadvantages beyond RDA or city control. In this way, public investment will be directed toward influencing those factors which can make a difference.

Set Goals and Objectives. Based on the vision statement, the strategic plan can then establish goals and objectives. Goals are generally expressions of broad direction. For example, if an RDA's vision statement focuses on removing blight and improving the economic condition of a city's downtown, examples of goals to achieve this may include improving the mix of retail opportunities, reusing underutilized parcels, and encouraging new business start-ups.

Each of these goals can then be refined into a series of objectives, which are more specific statements that quantify aspects of the goal. For example, if the goal is to improve the retail mix, an objective could be "to attract one new major department store to the downtown during the next five years."

In many cases, goals and objectives will require prioritization due to limited RDA financial resources and/or expected timing of feasible redevelopment. In these instances, the challenge of this step of the process will be to reach consensus on the priority of competing goals; however, prioritization is critical to developing effective implementation strategies and other planning activities recommended elsewhere in this report (e.g., see Debt and Financial Management Chapter as well as the next Recommended Practice).

Develop Implementation Strategies. This next step involves developing approaches to meet the objectives. For example, if an objective for improving a downtown is to attract a department store, the implementation strategy might be to identify an appropriate site for the store, complete a feasibility study, obtain the proper land use entitlements, build improved infrastructure, acquire the department store site, and solicit a department store.

Formulate an Action Plan. The action plan breaks the implementation strategies into a series of tasks, assigns responsible parties, and creates a timeline for task completion. The above example could involve the Chamber of Commerce, the Public Works Department, the Planning Department, local brokers, feasibility consultants, etc. A well-conceived action plan would also include cost estimates for each action, and identify sources of funds.

Implement Actions. This step involves actually doing what the plan says.

Monitor Performance. Monitoring performance involves at least an annual review of progress toward implementation and an update of the action plan. For implementation plans

mandated by AB 1290, the public hearing requirement in Year Two or Three of the plan offers an opportunity to formally report on performance.

Monitor the Local Real Estate Market

RDAs should track basic market indicators such as vacancy rates, absorption rates, and rents/sale prices to assess project feasibility and improve tax increment forecasts.

One of the better known axioms in real estate development during the past 20 years in California has been "if we build it, they will come." However, the late 1980s to early 1990s showed that this axiom is no longer true - if it ever was. In some cases, RDAs followed this axiom, only to experience a failed hotel or retail project lacking sufficient market demand.

One of the primary functions of an RDA should be to understand and monitor local market conditions as they affect project areas. Monitoring the market can take many forms. During project area planning, market considerations should be integrated directly into the plan, so that proposed land uses conform to long-range demographic and market trends. During periods of direct RDA investment or developer negotiations, the RDA should commission independent market feasibility studies to ensure that projects make economic sense. To monitor changing conditions, the RDA should also establish a set of market indicators (e.g., vacancy rates, lease rates, sale prices, and land values) for the project area, with regular updates. Some RDAs have become directly involved in marketing vacant space as part of revitalization - an active data base contributed by area real estate brokers should be maintained for this purpose.

Monitoring market conditions as they impact real property valuation is also critical for RDAs' financial planning. Particularly in times of economic downturn, RDAs have found that property assessments and resulting tax increment can decline, impacting the RDA's ability to service debt. A monitoring program which checks property assessments should be integrated into RDA financial planning (see Chapter 8).

Evaluate Project and Program Performance

RDAs should incorporate performance evaluation on an on-going basis into their activities and programs.

RDAs in California have experienced some remarkable successes as well as failures. A key recommended practice is to track these events through the process of performance evaluation. This process, which should be structured to enable better decision-making and strategic planning, involves the creation and use of performance measures, or quantifiable criteria, against which to evaluate the impacts of a redevelopment plan.

Performance evaluation should become integrated into the operating practices of RDAs. One of the most promising methods for accomplishing this is through the AB 1290 Implementation Plans, which look forward ten years to describe planned activities and projects. If evaluation of past performance is integrated into the preparation of the Implementation Plan in accordance with its five-year cycle, planning and implementation should grow continually more focused and effective.

Performance evaluation should follow these steps:

- Establish quantifiable and qualitative goals and objectives.
- Determine performance measures during the planning process.
- Keep track of the performance measure on at least an annual basis.
- Summarize progress and evaluate performance in terms of meeting the initial goals and objectives at least during every Implementation Plan cycle

- Adjust goals and objectives if necessary

Performance Measures. The actual mix of performance measures depends on the program goals and mix of activities. Potential performance measures include as follows:

Economic Development

- Number and quality of jobs created or retained
- Impact on business productivity, sales, exports, purchases, profitability, quality, and competitiveness
- Number of acres sold or square feet of space leased to new or expanded businesses
- Number of permits issued for commercial and industrial projects
- Increases in property or sales tax revenues resulting from assisted businesses
- Improvement in income/wage levels in the community.
- Number of job placements made through training/placement services

Commercial/Neighborhood Revitalization

- Value of new investment in the community (increase in assessed valuation)
- Incidence of loan repayments or defaults
- Improvement in the mix of goods and services available to residents
- Reduced vacancy rates in commercial and industrial properties
- Occupancy rate increases in hotel/motels
- Resident ratings of shopping opportunities
- Resident ratings of neighborhood quality
- Number of residents/merchants receiving services

Affordable Housing

- Reduction in identified unmet housing needs
- Net gain in affordable housing units
- Timely expenditure of funds
- Initial rates of leasing or sales
- Occupancy rates
- Smooth integration of funding sources
- Timely repayment of loans to developers
- Leverage of other public and private funds

Debt Management

- Maintenance or improvement in credit rating
  - Cost of borrowing

Communicate Results to the Public

RDAs need to effectively communicate the results of their actions to the public and key constituencies to encourage project and program support as well as change community perceptions.

RDAs often encounter public resistance to plan adoption, pressure to change direction, or calls to suspend redevelopment activity. Sometimes, RDAs implement programs to encourage economic development and revitalization and find that business climate perceptions change slowly. These situations can arise from a lack of communicating the progress within a project area to the public, as well as an overall lack of communicating the purpose and mechanics of redevelopment to key constituencies such as business owners and residents.

Results of RDA activities can be communicated in many ways including newsletters, public forums, citizen's groups, press releases/newspaper articles, published annual reports, and slide shows/videos. In smaller communities, these communication efforts could be combined with city-wide communications, so that redevelopment activity is simply one of the items being reported to the public on a regular basis.

Cost/benefit analyses of projects and programs can also be conducted and published, such as an analysis of the public investment made and subsequent employment growth experienced in a project area compared to the city as a whole. This can be especially useful to public and private decision-makers who will be called upon to support an RDA's project or program. All of these forms of communication can be linked to the recommended practice regarding disclosure of project area financial data to the secondary market as described in Chapter 8 - Debt and Financial Management.

CHAPTER 5: ECONOMIC DEVELOPMENT

The ability of RDAs to target their special powers to specific blighted project areas is a significant tool for local economic development. Economic development describes the set of public sector activities which strengthen and develop the economic base of an area, either through adding employment or increasing public and private sector revenues. A variety of techniques are used by local governments to promote economic development, such as:

- Business attraction & retention
- Small business start-up, incubation, and promotion
- Infrastructure upgrades or replacement
- Maintenance of a jobs/housing balance
- Development of tourist facilities and attractions
- Targeted law enforcement and social service delivery

The practice of economic development has been changing significantly in recent years. Historically, economic development focused on business attraction and recruitment, and typically involved subsidization of physical improvements. In the late 1970s and 1980s, economic development practitioners began to introduce program innovations centered upon business retention and expansion of the local economy by business incubation and start-up assistance. More recently, economic development professionals have recognized the need to implement comprehensive strategies which take into consideration community development, urban planning and design, job training, law enforcement and social services.

The following discussion provides recommended practices and case studies to illustrate some of the successful techniques which RDAs have utilized to promote economic development.

Participate in Local Economic Development

RDAs should become full participants in a city, county, or region's economic development planning and programming efforts.

The goal of most RDAs engaged in economic development activities is to strengthen and diversify the economic base within the project area, thereby improving the economy of the entire city as well as the region. Reaching this goal can be difficult, especially amidst competing local and regional economic interests, downtown and suburban rivalries, and severely constrained public resources. Additional hurdles include accelerating global economic and political change, and increasing domestic and foreign competition for skilled labor/capital investment.

Under ideal circumstances, RDAs' economic development activities in project areas should be extensions of city-wide or regional economic development strategies and programs. Thus, a redevelopment project area becomes a targeted geographic area where the full resources of the community or region can be concentrated to improve economic conditions.

Many communities in California have responded to the recession of the early 1990s by emphasizing economic development planning and strategies. Some communities have created Economic Development Elements for their General Plans, while others have developed programs as part of a separate economic development strategy. Although some communities recognize RDAs as a primary mechanism to implement economic development strategies, other communities have organized their efforts without direct links to RDA activities, leading to an unclear definition of the RDA's role. Some cities have created special mayor's or city manager's offices of economic development disconnected from their RDA. This situation can lead to duplication of effort, such as similar business

loan programs simultaneously offered by an RDA and another local government entity.

Because redevelopment offers such an excellent tool for implementing economic development strategies, it is recommended that RDAs become full participants in their larger community's economic development planning and implementation efforts. The RDA's role in economic development should be clearly defined in a community's overall economic development strategy and program, and should build upon the strengths and abilities of redevelopment to focus a combination of resources on small geographic areas requiring a concentrated economic development effort.

Develop an Appropriate Mix of Strategies

RDAs should develop an appropriate mix of business retention, attraction, and development strategies to meet the needs of the local economy.

This recommended practice emphasizes that all three common approaches have merit, and should be carefully assessed in terms of each strategy's potential benefits to the community. Much of prior economic development effort has focused solely on business attraction, resulting in expensive marketing and subsidy programs which sometimes diminished the economies of nearby communities. The following describes potential methods for RDAs to assist in retaining, attracting, and starting new businesses within project areas.

Business Retention Programs. Business retention, which focuses on keeping businesses within a community and helping them to expand rather than relocate, is a widely-used economic development strategy. Business retention strategies can signal to businesses that the community desires new investment and seeks to create a favorable business climate.

Retention strategies can be as straightforward as regular personal communication with existing businesses to ascertain problems that can be addressed by public agencies. RDAs can also help retain businesses needing room for expansion by offering developable sites and improved infrastructure. Finally, RDAs can spearhead efforts to streamline the land use regulatory and permitting process within project areas, thereby creating a favorable climate for growing companies.

Business Attraction Programs. Traditionally, business attraction programs have served as the centerpiece of local economic development strategies. However, many communities have experienced competition between

redevelopment project areas and other parts of the community, as well as intense competition from other communities vying for the same business or store. The cumulative result of intensive attraction programs has been an escalating cost to the "winning" community, sometimes far outweighing the benefits brought by each new job attracted. Cases of well-known attraction efforts in other states have cost public agencies as much than $200,000 or more per attracted job in direct subsidies, land write downs, and tax breaks. While the costs of these programs have not been quantified to date for RDAs in California, both the cost per job and the quality of the jobs (e.g., wages that support families) should be considered by RDAs and others engaged in economic development when structuring these kinds of programs.

The most successful business attraction programs are characterized by careful analysis of targeted industries that match the community's (or project area's) competitive strengths. High wage/high cost communities find it difficult to attract cost-sensitive industries with low profit margins such as traditional manufacturing or electronics assembly; in these cases, attraction strategies have been more successful when targeted to "high-value" business functions such as research and development or business services. To attract "high value" business activity, RDAs need to market the region's existing supplier and vendor base, skilled labor pool, quality of life, educational opportunities, and other assets that are often intangible.

In contrast, low-cost communities, which are attractive to price-sensitive firms, should emphasize traditional factors such as inexpensive land costs, utility services, and wage structure. For these communities, RDAs can assist the attraction strategy by providing strong marketing expertise and maintaining inventories of available land/building spaces.

New Business Development. Increasingly, communities are integrating new business development into their economic development activities through mechanisms such as small business technical start-up assistance and lender or venture capitalist funding consortia. New business development approaches are based on the assumption that most new jobs are created by small businesses.

One of the most promising forms of new business development being considered by RDAs is the concept of a small business incubator. The typical local government-sponsored small business incubator provides low cost office or industrial space, shared professional and support services, and technical and financial assistance to start-up and small businesses. These facilities are often located in buildings that have been renovated for multi-tenant use.

Experts recommend the following to create a successful business incubation project:

- Select a building with low renovation costs and low operating costs for utilities and maintenance so that rents can be held to below-market levels. High renovation costs can lead to the need to charge high rents in order to break even, defeating the purpose of the incubator.

- Build internal capacity for developing and managing an incubator, or contract out for these services. Incubators require capability in both

property management and service provision; technical assistance programs must be fully staffed and operational prior to opening the facility.

- Conduct thorough market research in order to understand demand and supply factors in the local community. RDAs must be able to identify the size and needs of their target incubator market, including requisite technical assistance and rent levels.

The Sacramento Housing and Redevelopment Agency's recently opened West Florin Business Incubator project illustrates the need for careful planning and program development (see accompanying case study). This facility combines the incubator concept with "micro-enterprise" business development programs. Since this facility has just opened, its success cannot be fully assessed.

SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY: WEST FLORIN BUSINESS INCUBATOR

Working in partnership, the Sacramento Housing and Redevelopment Agency (SHRA) and West Florin Business Incubator, Inc. have established a business incubator that offers affordable space to graduates of an entrepreneurial training program located at the site. Through its support, the SHRA is seeking to stimulate the formation of new small businesses owned by low- and moderate income residents of redevelopment areas and other distressed parts of the city. Moreover, this project provides low- and moderate-income persons the opportunity to become self-sufficient through entrepreneurship. This targeted approach represents a major departure from the SHRA's traditional economic development focus on offering financial incentives to attract businesses.

The Sacramento region had suffered significant job losses partially due to two military base closures. In response, the SHRA re-evaluated its mix of economic development programs and sought new ways of promoting employment growth including business incubation. The SHRA became aware of the efforts of the West Florin Business Incubator, Inc., a nonprofit corporation that controlled a building, and formed a public/private partnership to establish the West Florin Business Incubator program. To fund the program, the partnership combined Community Development Block Grant and HUD Section 108 loan funds, making a total of $1.0 million available for direct incubator program-related expenditures. The partnership completed improvements to a 45,000 square foot building, of which 22,000 square feet were leased to local public and private social service agencies and 23,000 square feet were dedicated to small business development training facilities and leasable incubator space. Rehabilitation costs for architectural designs, construction documents, facade improvements, roof repair, and interior improvements for the incubator-related portion of the building totaled $700,000.

A business technology center has been established at the incubator site to provide entrepreneurial training to incubator occupants as well as the larger business community. The two year training program offers 12-week modules involving four hours of training per week. In addition, 320 hours are available for personal tutoring. The business technology center also links graduates with opportunities to locate in redevelopment project areas and other targeted areas by offering financial and technical assistance.

Streamline Regulations and Permitting Procedures

RDAs should encourage or coordinate efforts to streamline local government regulations and permitting procedures to improve the business climate in their project areas.

One important component of economic development is the way that local land use regulations and permits are administered. While regulations and permit procedures are necessary to meet a range of public goals, they are sometimes issued in a form that is hard to understand or is overly complex. Many California communities have re-evaluated their regulatory and permitting processes in order to improve their business climate. Examples of methods RDAs can use to encourage or coordinate streamlining are described below.

Specific Plans. RDAs can commission and/or participate in Specific Plans to stimulate private investment in project areas. Specific plans combine land use designations, infrastructure and capital improvements programs, and design guidelines standards into one document. Specific Plans clearly describe acceptable forms of development for specific geographic areas, thereby reducing uncertainty and shortening the entitlement process.

Review Regulatory Process. RDAs can review how the local government's regulatory process and presentation of information affects development in project areas. New businesses and developers often face local ordinances and codes that may be difficult to understand or have conflicting provisions. RDAs can assist local agencies in reviewing ordinances and codes to ensure that they are clear and concise.

Make Forms User-Friendly. RDAs can package the forms and instructions related to the entitlement process for their project areas, making it easier for private investors to complete the process. This practice may involve re-designing forms or explanatory brochures, or assigning a

project coordinator to assist in the approval process. New forms of information dissemination, such as computer programs enabling the user to fill out forms by touching a computer screen, or explanatory telephone recordings, may be useful tools for RDAs to explore.

Hold Pre-Application Conference. RDAs can coordinate a pre-application conference with other local agencies and project applicants to reduce permitting time. Typically, a pre-application conference is held to resolve potential development issues, review procedures, and coordinate schedules.

Create One-Stop Permitting Centers. RDAs can assist city planning and building departments in implementing "one stop" permit centers. A one-stop center dedicates physical space and establishes procedures that result in improved service to the public. To design its one-stop center program, the City of Sunnyvale interviewed local businesses, industry leaders, and developers to identify service delivery problems. Sunnyvale discovered that there was a strong need for advance communication, improved coordination, and streamlined procedures related to permitting and licensing. Ultimately, these interviews led to the establishment of a one-stop center as well as changes in regulations.

Conduct Business Outreach and Promotion

RDAs should conduct active business outreach and promotional programs to assist project area businesses.

Active outreach programs, where RDA staff are assigned to regularly visit with local business owners, can be an important mechanism to promote economic development. The City of Brea's "Business Beat" program (see accompanying case study) involves field visits by RDA staff to "take the pulse of business," market the RDA's programs, and identify early warning signs of problems that need to be addressed. The success of this program can be measured by changes in business climate attitudes held by the local business community.

Promotional services, where an RDA markets its project area's assets through brochures, community profiles, or maps that communicate opportunities, can serve as an effective business booster. One of the largest scale promotion operations in California is undertaken by the Los Angeles Community Redevelopment Agency (CRA/LA) for its downtown area. The CRA/LA produced and distributed over 250,000 of its downtown guides for visitors, indicating restaurants and attractions in the downtown Los Angeles area. The CRA/LA distributes its map through the CRA Downtown Marketing Council, convention and visitor's bureau, hotels, and downtown employers. Response to the map, called "Downtown Los Angeles - Discover the Heart of the City of Angels" has been positive, according to merchants who distribute it.

BREA REDEVELOPMENT AGENCY: "BUSINESS BEAT" TAKES THE PULSE OF BUSINESS

The Brea Redevelopment Agency's "Business Beat" is an excellent example of how an RDA can improve the community's business climate through outreach and direct personal contact with local businesses in the project area.

The Brea Redevelopment Agency has nine full-time staff, a $48 million annual budget, and two project areas encompassing over 2,400 acres. Agency staff recognized that few new businesses were moving into Brea, existing businesses were expanding elsewhere, and some were moving out of the community. Of particular concern to Brea was its significant quantity of vacant industrial space; the city's office, retail and residential markets were doing relatively well.

Working closely with the Chamber of Commerce, the Agency designed its Business Beat program to meet two goals: (1) increase the general business community awareness of Brea's positive business environment; and (2) retain existing Brea businesses by identifying those that are contemplating either relocation, expansion or down-sizing.

To achieve these goals, the Agency designed the program to include random visits to local businesses to identify problems and needs, distribution of resource materials, staff/consultant assistance to identify expansion/relocation options within the community, collaboration with the Chamber of Commerce to identify businesses at risk of decline or relocation, and referrals to other city departments such as planning and fire to resolve problems identified by the businesses.

Brea's program cost is 20 percent of one staff member's time plus approximately $1,000 in printed materials. Agency staff visit three to four businesses per week. Reportedly, businesses are "amazed" that anyone from the City would drop by to ask how they are doing.

Business Beat differs from most other business retention programs in its use of personal communication, emphasis on business support, and linkages to other city departments to quickly resolve problems.

Incorporate Job Training and Social Services

RDAs should recognize that sometimes social problems constitute a major barrier to economic development and should incorporate social service programming into their project planning, as appropriate.

RDAs are increasingly recognizing that strong linkages between economic development and social services must be provided in certain project areas to address blight. With the advent of economic blight criteria in AB 1290, this approach will take on added impetus.

Typically, project areas with high rates of crime, welfare dependency, drug and alcohol abuse, gang activity, illiteracy, and other social ills require more than physical improvements or financial incentives to business to effect economic change. Although the CRL does not currently allow tax increment funds to be used for the payment of social services, it is important for RDAs to plan for multidimensional projects and programs that move beyond physical blight removal, ensuring long-term change in project areas.

For example, by working with local residents, businesses, and social service providers, the Los Angeles Community Redevelopment Agency added a strong social service programming component to its redevelopment plan, resulting in the Hollywood Social Needs Plan (see case study).

LOS ANGELES COMMUNITY REDEVELOPMENT AGENCY: LINKING SOCIAL NEEDS TO ECONOMIC DEVELOPMENT

The Hollywood redevelopment project area, one of 17 project areas that comprise the Los Angeles Community Redevelopment Agency (CRA/LA), adopted a plan in 1986. The Plan is based upon the principle that economic development must be linked to effective social services when social issues are a key barrier to improving economic conditions. The plan specifically allocates 10 percent of its tax increment to fund capital projects related to social service programs, encouraging innovative programs that respond to unmet social service needs. Funds may be awarded for program operating expenses or administrative costs only in special circumstances. Agency funds would, when possible, be used to leverage other fund sources. Projects funded under this program cannot substitute for existing public or private resources allocated to the project.

The CRA/LA realized that the Hollywood area, which has been a hot spot for drug dealing, runaways, prostitution, and crime for over 40 years, could not reverse its decline without addressing its social problems. To begin the process, the Hollywood Community Advisory Council initiated a social needs assessment which identified needs, service gaps, and trends in service delivery to area residents. Subsequently, the Hollywood Social Services Consortium was formed in January 1993. The Consortium, which serves as an advisory group to the Hollywood Community Advisory Council, works with the Advisory Council on social service issues and funding priorities, provides a vehicle for exchanging information among social service providers, promotes a comprehensive approach to social service delivery in Hollywood, identifies service gaps, and recommends solutions.

Since its formation, the Hollywood Social Services Consortium and the agency have funded projects totaling just under $5 million. These projects include $875,000 for the Los Angeles Free Clinic, $1.4 million for the Gay and Lesbian Community Services Center, $2.1 million to the YMCA for transitional housing for homeless young people with children, $70,000 to Los Angeles Youth Network to complete renovation of a 20 bed shelter for homeless youth, and small grants to Selma Elementary School and Teen Canteen.

A measure of this approach's success is the established role of the Consortium, which serves as a forum for a broad spectrum of potentially antagonistic groups competing for a limited pool of financial resources. The Consortium process provides a way for these groups to meet together on an on-going basis and design and implement long-range social service planning.

Maximize Financial Assistance

RDAs should maximize their financial resources by structuring financial assistance with repayment features, terms and conditions stipulating other actions, or by combining RDA funds with other private and public sources of funds.

RDAs often combine federal, state, local, and/or private funds to create loan programs that finance project area businesses or development projects. To achieve maximum impact, loan programs need to maximize RDA funds through leverage by combining them with other sources of public and private capital, including Community Reinvestment Act funds provided by banks. The following describes several common types of loan programs utilized by RDAs.

Direct Agency-Sponsored Revolving Loan Funds. Most RDAs engaged in economic development have established revolving loan funds where the agency sets aside a pool of funds - usually a combination of tax increment, general fund, and state/federal money - to provide loans to targeted businesses. As loans are paid, new ones are originated. Underwriting and program administration are either undertaken in-house or contracted to a non-profit development corporation or local financial institution. Loans from these programs usually offer below-market interest rates as well as less stringent underwriting criteria than those available from conventional lenders.

Loans with Forgiveness Features. Many RDAs have provided loans to the private and non-profit sectors which contain built-in "forgiveness" clauses. These loans, which effectively function as grants to organizations, can stimulate activities that would clearly otherwise not occur. They should be used selectively by RDAs, given that they do not always result in repayment of principal amounts.

CITY OF VISTA REDEVELOPMENT AGENCY: REHABILITATION LOAN PROGRAM LEVERAGES FINANCIAL ASSISTANCE

By leveraging $400,000 of Agency funds to create a loan pool of $3.5 million, this commercial rehabilitation loan program illustrates maximizing scarce financial resources.

The City of Vista Redevelopment Agency, with six full-time employees and an annual budget of $1.8 million, is seeking to improve Downtown Vista, retain downtown businesses, and attract new tenants to vacant storefronts. Prior to this program, the Agency offered a $500 facade improvement program; however, this approach had limited impact.

The Agency designed a commercial rehabilitation loan program to provide financial assistance to owners and tenants to improve the interior and exteriors of their properties within the city's downtown. The program involves three components: (1) $500 towards retention of architectural services; (2) facade grants to reimburse up to one-third of the total cost of facade improvements up to a $10,000 maximum and (3) below-market rate financing from four participating lenders including an agency interest rate subsidy to reduce the bank rate by 300 to 400 basis points and payment of all non-recurring closing costs.

The Agency first negotiated with First Interstate Bank to set up a revolving loan fund with which the bank could meet its Community Reinvestment Act requirements. When local banks learned of First Interstate's involvement, they asked to join the program, resulting in a $3.5 million line of credit for commercial rehabilitation loans. The Agency obtained an 18 month commitment from participating lenders. Seven loans totaling $300,000 were committed or closed during the first six months of program operation. At present, each participating lender sets its own interest rate; the Agency has indicated that a better approach would be the lead lender setting the rate to be followed by other participants.

An early success of this program was assistance to a bakery with five employees and $200,000 in annual sales. The 30-year old Vista business, which had been considering relocating to a neighborhood shopping center, moved instead to a downtown building renovated under this program. With this program, the Agency can leverage its limited resources as well as avoid making costly direct loans. For the applicant, lower loan origination costs and payments help bolster creditworthiness and loan qualification.

An interesting approach to structuring a loan with a forgiveness clause is the Los Angeles Community Redevelopment's "disappearing" loan program for its Hollywood district, targeted to the entertainment industrial sector. In this case, the RDA program allows for the loan principal amount to be reduced over a set period of time, subject to fulfilling certain conditions or standards such as maintaining a building or conforming to the Secretary of Interior's Standards for historic property renovation. This structure allows for the non-recovered moneys to be applied to meet public policy goals, offering a "carrot" approach to project area plan implementation.

Indirect Subsidies. Indirect subsidies can include interest rate buydowns, loan guarantees, and/or payment of closing costs. Agency funds are leveraged with private capital as well as state and federal assistance. Offering indirect subsidies is one way to maximize leverage since the agency cost per loan is relatively low compared to other loan programs. The City of Vista provides a useful example of a loan subsidy program for commercial property improvements (case study included later in this report). The Vista Redevelopment Agency case shows how RDA funds can be effectively leveraged with private capital sources.

CHAPTER 6: COMMERCIAL AND NEIGHBORHOOD REVITALIZATION

One of the primary purposes of redevelopment is to revitalize downtowns, business districts, industrial areas, and residential neighborhoods by removing blight. Through physical improvement projects, community image building, property and business owner assistance, and aggressive marketing of programs, redevelopment agencies can often significantly improve blighted conditions and restore economic vitality within project areas.

Commercial and neighborhood revitalization programs are often tightly linked to a local government's economic or community development strategy. While the goals of economic development programs typically focus on employment and tax revenue enhancements, the broader goals of commercial and neighborhood revitalization typically include increasing retail sales activity, preserving neighborhoods, improving physical appearance, preserving historic buildings, reducing crime, and improving the delivery of public services.

Develop Market-Driven Strategies and Projects

RDAs should develop market-driven strategies and projects by conducting market feasibility studies, identifying barriers, setting realistic goals, building community support, and marketing effectively.

For many years RDAs approached revitalization by undertaking physical improvement projects with the expectation that private investment would follow and that there would be a synergistic effect upon surrounding properties. Many of these physical projects failed to have a lasting impact because they did not follow a market-oriented approach.

Today, many RDAs undertake extensive analyses of market demand and supply, shopper behavior, and location preferences of businesses, shoppers, and residents. Furthermore, there is a growing recognition among RDA managers that linkages to other local government agencies and private organizations are extremely important for the ultimate success of any revitalization effort. RDAs now actively promote community involvement by establishing community development corporations, advisory groups, task forces, town hall meetings, neighborhood watch groups, and other community-based mechanisms for encouraging the participation of existing businesses and residents.

There are many good sources and guides to revitalizing commercial areas and neighborhoods (see Appendix B). The following highlights several key steps that agencies should focus on as they revitalize commercial districts and neighborhoods. These steps include market feasibility analysis, identification of barriers to revitalization, setting realistic goals, building community support, and marketing effectively.

Analyze Market Feasibility. RDAs should prepare or commission market studies for all projects representing

major public investment. This step will help to ensure that the project responds to realistic demand and supply factors rather than merchant pressures or a political need to build empty "monuments" - thereby increasing the odds that an investment will meet with success.

A thorough market analysis generally should contain the following items:

- Definition and supporting rationale of market or trade area
- Analysis of historic and current demographic trends and conditions
- Identification and analysis of the target market
- Estimate of demand
- Likely achievable rents or sales prices
- Assessment of existing and planned competitive supply
- Estimate of unmet demand net of existing and planned supply
- Estimate of required market capture rate

In addition, for commercial revitalization projects, a thorough market analysis often includes surveys of potential shoppers and existing merchants. Potential shoppers should be identified and surveyed from all parts of the market area. Too often, these surveys are targeted to shoppers already in the commercial district (e.g., through intercept surveys); this approach does not provide sufficient information on those potential shoppers who are not yet shopping in the district. Surveys or other market research of business owners can provide very useful information regarding their impressions of a commercial district, as well as yielding solutions to commonly perceived problems.

In cases when an RDA seeks to redefine the retail mix of a district by attracting new kinds of retail tenants, the market analysis should also include contacting these desired new tenants directly to fully understand how they make investment and location decisions. The feedback received from prospects can greatly inform the RDA's feasibility study and planning process.

For residential neighborhood revitalization, input from residents is critical to the process. RDAs should engage residents early on to self-identify problems. A good example of this approach is Ontario's Neighborhood Enhancement Program, which has been in operation for three years. The program is considered successful by the City, and other residents are competing to get it expanded to their neighborhoods. An important lesson from the Ontario case is how the RDA leveraged its resources by engaging local residents to identify and undertake their own improvement plan in cooperation with other city agencies. This "buy in" has durable results as residents display greater pride and control of their neighborhood.

Identify Barriers to Revitalization. Commercial districts and neighborhoods often decline as a result of several interrelated problems such as one or several of the following:

- Declining private investment and lender activity
- Functionally obsolete buildings
- Inadequate infrastructure maintenance

- Real or perceived high rates of crime
- Inadequate parking and/or public transportation
- Inadequate zoning
- Difficult land assembly and unfavorable ownership patterns
- Litter and graffiti
- Poor circulation patterns for vehicles and pedestrians
- Lack of business leadership
- Outdated merchandising and displays
- Mix of retailers that do not complement each other

Successful revitalization requires addressing all major relevant barriers. A renovated movie theater will fail to attract night-time patrons if the area is perceived as having a high level of crime, even if the theater is beautifully restored and shows first-run movies. Similarly, a declining neighborhood will not revitalize through home improvement loans unless the area has appropriate transportation access and circulation. To address these barriers, each RDA needs to develop a program mix tailored to the unique circumstances of its project area.

A common approach RDAs used in the 1970s and 1980s to revitalize commercial districts was to focus on improving physical appearance through facade improvement programs. In some cases, however, the underlying reason for declining retail sales was not due to a shabby streetscape, but to a poor mix of retail items or lack of modern merchandising. Some RDAs have found that investment in business assistance to merchandisers to improve their displays, redo their windows, and update their merchandise created a synergism that resulted in the private market undertaking physical improvements.

Set Realistic Goals. By analyzing the market and identifying barriers, the RDA will be able to target its efforts toward realistic goals. In the 1980s, some smaller cities saw the proliferation of department stores and suburban shopping malls, and wanted to attract similar shopping facilities to their central business districts. In some cases, the redevelopment plan designated an underutilized site as a department store site. However, this strategy often failed to attract the level of retail sales or types of facilities desired, due to underlying lack of market demand and the locational preferences of department stores. In some cases, revitalization efforts are now focusing on the strengths of the downtown district, such as dining, home furnishings, and/or entertainment.

Build Community Support. Revitalization seeks to increase private investment and build ownership in an area so that it is valued by both its own residents/businesses and the larger community. This requires RDAs to actively organize business and neighborhood leaders to build community support. The process involves identifying key individuals, getting the attention of local officials and elected leaders, establishing close working relationships with other local government departments, and, most importantly, completing commitments for public investment in a timely manner. Community outreach should also involve building relationships with local lenders to encourage financial participation in revitalization activities.

Long Beach Redevelopment Agency: A Comprehensive Downtown Revitalization Strategy

The Long Beach Redevelopment Agency has an annual budget of $72 million and a staff of 15 employees. Since adopting its Downtown Area nearly 20 years ago, the Agency has built numerous public infrastructure improvements, and has now shifted its focus toward the improvement of the existing built environment. Its Revitalization Strategy, completed in 1990, set forth the goals of expanding the downtown retail market, widening the range of shopping opportunities, enhancing the physical environment, and expanding the participation of property owners and tenants in the revitalization process. Together, these goals seek to create an 18-hour environment downtown where people can live, work, shop, and play. Since 1990, the Agency has implemented specific programs to meet its revitalization goals including a Downtown Marketplace, Streetscape Improvement and Signage Programs, a Retail Management Plan, a Key Retail Tenant Loan Program, Facade Loan Program, Downtown Guides, a Banner Program, and a Marketing Program.

Overall, the Long Beach Downtown Revitalization Strategy incorporates a "human" element, and provides opportunities to involve the public. For example, the Downtown Guides program provides uniformed, on-street personnel who function as "city ambassadors." They provide information to citizens and greatly enhance the public's experience of the downtown retail district. The Downtown Marketplace is an open-air market occurring every Friday on the Downtown Promenade. The event includes a Farmer's Market, Arts and Crafts Fair, food booths, and noontime concerts. Each event draws 5,000 to 10,000 people to the city's center.

The Agency measures its success by increasing sales tax revenue and sales activity. Since implementation of the Strategy, downtown restaurant business has increased 20 percent, and three major retailers have moved in (Crate & Barrel, B.U.M. Equipment, and Z Gallery). Business has improved for hotels, restaurants, and retailers, pedestrian traffic has increased, and the enthusiasm of downtown merchants has grown. The Strategy has helped raise property values, and thus property taxes. In addition, the convention center has benefited because of the nighttime entertainment activities now available to convention attendees.

Market Effectively. For revitalization efforts to succeed, RDAs need to market their efforts on several levels. First, for commercial business districts, RDAs should follow the concept of "positioning," whereby retail and commercial activities are clearly organized to serve one or more particular groups of shoppers in a distinct way from other choices in the marketplace. "Positioning" is carried out through on-the-ground development activities and is communicated in advertising and promotional campaigns. To succeed, the business district must be viewed by shoppers, workers, and visitors as unique and exciting. In many cases, the personal service and merchandise mix available from local merchants is also a strength that can distinguish the area from competing shopping centers.

Second, RDAs can schedule promotional campaigns and events, such as festivals and street fairs, to communicate the RDAs activities. Events or other promotional efforts serve as a lure to get people back downtown to see the changes. The Long Beach Redevelopment Agency provides an innovative example of outreach by dispatching "citizen ambassadors" to the streets of Downtown Long Beach to market attractions and assist visitors (please refer to the accompanying case study).

Finally, RDAs must take the initiative to market government programs and financial assistance to businesses, residents, and property owners. In many cases, lack of knowledge about available programs results in their underutilization. A strong marketing program with clear program descriptions and "user-friendly" forms not only improves participation rates, but helps change community perceptions about an RDA's effectiveness.

Create a Sense of Place

RDAs should encourage the design of attractive places, including preservation of historic assets, to build a sense of identity in the project area.

Encourage the Design of Attractive Places. Urban design is a key ingredient to revitalizing downtowns and neighborhoods. A well-conceived revitalization plan includes a strong urban design component to ensure that buildings front on the street and connect the street to activities inside. Elements of urban design include landscaping, street lighting, banners and signs, sidewalk and crosswalk surface textures, (brick or stone), and street furnishings (benches, sculptures, kiosks, and water fountains).

RDAs should formulate design guidelines and encourage developers to make building improvements that enhance the project area. Applying good design standards can strengthen the identity of a downtown or neighborhood, making a visible statement that renews the entire community.

Preserve and Exploit Historic Resources. Historic buildings can be one of the most valuable assets of commercial districts and neighborhoods. Renovated and upgraded to current seismic and safety codes, these buildings often enliven commercial areas by drawing in new employers, shoppers, and visitors.

Numerous California cities have launched successful facade and building rehabilitation programs to protect historic structures while converting building interiors to economically viable uses. RDAs can work with local planning or community development departments to adopt a historic preservation ordinance to prevent, discourage or delay alteration/demolition of historic structures. RDAs can also focus much of their project-specific work around underutilized historic places, leveraging historic investment tax credits with traditional RDA funding sources.

Advocate for Improved Public Services

RDAs should take a leadership role in improving public service delivery to commercial and residential neighborhoods by establishing cooperative relationships with local service providers.

RDAs can act as advocates for their project areas, working with other local government entities to improve service delivery and target services to specific neighborhoods. In some cases, this advocacy role can be a strong catalyst toward revitalization, and can spur area merchants or residents to contribute their time towards even more intensive self-help programs.

An outstanding example of this approach is profiled in the Ontario Neighborhood Enhancement Program (see accompanying case study), where RDA staff serve as liaisons to other city departments as well as facilitators for resident organizing.

Another aspect of this practice involves RDAs working with local law enforcement agencies to improve crime prevention and enforcement actions in project areas. Many business and neighborhood districts, especially in central cities, are beleaguered by a perception of high crime, leading to a decline in shopper traffic or, in residential areas, a cycle of decline and disinvestment as homeowners and long-term residents leave. RDAs should work closely with their police department to evaluate current law enforcement services, identify problems, and find solutions such as "community policing," which assigns police officers to regular beats, and foot and bicycle patrols. In addition, some cities and/or RDAs are experimenting with tightened land use regulation for certain uses, so that, for example, bars or liquor stores are not concentrated in any given area.

ONTARIO REDEVELOPMENT AGENCY: THE NEIGHBORHOOD ENHANCEMENT PROGRAM

The Ontario Redevelopment Agency's award-winning "Neighborhood Enhancement Program" (NEP) demonstrates that RDAs can play a leading role in improving the quality of life in troubled residential neighborhoods.

The NEP's goal is to stimulate a self-help approach to clearing blighted conditions in four target areas within RDA project areas. A similar implementation process was followed for each target area. First, a windshield survey was conducted to assess physical conditions and define a target area. Target areas were intentionally kept small to ensure that participants could relate to each other. Next, each resident was contacted personally and by mail to inform them of a Kick-Off Meeting which introduced the NEP. Then, the Agency placed garbage dumpsters in strategic locations throughout each target area, demonstrating that it could quickly respond to resident needs. RDA staff also organized a work day for residents to work on their homes or yards. A block party followed, with residents enjoying food, entertainment, and information displays of RDA and other city departments.

RDA staff followed up initial efforts by recruiting adult and youth volunteer "block captains" to organize work days, inform residents about the NEP program, and participate in other programs such as Neighborhood Watch. The Agency also marketed a "bundle" of available revitalization programs to residents through personal contact, including emergency repair grants, paint grants, zero and low interest loans, home improvement rebates, tree trimming, and tool lending. The RDA produced "No Place Like Home," a newsletter written mostly by residents. Finally, neighborhood identity was emphasized through creation of a neighborhood name and theme.

The RDA funds NEP with housing set-aside funds; to date, costs total approximately $627,000 with one full-time staff person and a part-time intern. RDA staff efforts are augmented by City departments such as solid waste, code enforcement, police, fire, parks, and library. Program success is measured by the degree of resident involvement, the level of physical improvements, improved neighborhood quality of life, and improved public service delivery. The NEP has created a synergism, with non-program participants undertaking their own rehabilitation projects. Key to the program's success is the assignment of highly motivated staff who function as community organizers.

Target RDA Problem Solving Assistance

RDAs should respond to solve problems and assist the private market in development activity when needed.

RDAs have unique capabilities to serve as a catalyst beyond typical local government actions. In some cases, the RDA role in revitalization should emphasize problem solving, with creative approaches formulated to address very specific problems or obstacles. An excellent example of this practice, as applied to a business district revitalization goal, is the risk-reduction plan used by the Woodland Redevelopment Agency to resolve toxic contamination liability issues that were blocking the attraction of a large employer to an area adjacent to the city's revitalizing downtown. By resolving these issues, the RDA cleared the way for a new retail market segment - employees - to locate near shops seeking new customers.

The key to implementing this practice is a clear line of communication with the business community so that problems or obstacles to revitalization present in the marketplace can be identified and resolved.

WOODLAND REDEVELOPMENT AGENCY: SHARING TOXIC LIABILITY

The Woodland Redevelopment Agency successfully coordinated the sale of a contaminated parcel for development as a Blue Shield of California Insurance Company office building as part of its downtown revitalization strategy. When negotiations among private parties stalled on toxic clean-up and future liability issues, the RDA coordinated negotiations among the City of Woodland, the County's Department of Environmental Health Services, the developer, Blue Shield, and Southern Pacific Railroad (the property owner). The RDA negotiated a DDA with the developer and Southern Pacific Railroad that defined levels of liability by type of contaminant, including the following key terms:

1. Chromium was found in the soil at above normal but acceptable levels. Since its origin was unclear, future cleanup needs were uncertain (but not likely). The DDA states that Southern Pacific will be responsible for chromium cleanup for the first three years after the sale, if necessary, with the RDA indemnifying the other parties against any such cleanup responsibility after that date.

2. Monitoring of wells indicated that gasoline in the groundwater at one end of the parcel came from a leaking underground tank leak located on an adjacent parcel whose owner was on the list for subsequent CAL EPA cleanup assistance. The DDA indicates if any additional ground water cleanup beyond CAL EPA work becomes necessary, then Southern Pacific and the Agency will evenly split the first $400,000 of such cost. Indemnifications similar to Item 1 were also provided by the RDA.

3. Contamination from any other source is the responsibility of Southern Pacific for the first $100,000, the developer for the next $100,000, and the Agency thereafter.

Due to RDA assistance, 150 employees now work and shop downtown, nearby property values have been enhanced, and several other sites in the area are under consideration for private development. It is important to note that this kind of risk sharing creates an off-balance sheet contingent liability for an RDA. To minimize its exposure, the RDA agreed to terms only after completion of Phase I and II studies, extensive consultation with the County's Department of Environmental Health Services, and completion of soil cleanup by Southern Pacific.

The CRL requirements that RDAs set aside 20 percent of their revenues for low and moderate income housing have created a major source of funding for affordable housing in California. In Fiscal Year 1991-92, RDAs contributed more than $433 million to their Low-and-Moderate-Income Housing Funds. In the same period, RDAs spent almost $297 million on affordable housing, and reported a cumulative total of $318 million available for immediate housing assistance including funds contributed previously.

A re-occurring criticism of some RDAs has been that they are not effective in producing affordable housing pursuant to CRL requirements. Yet, the requirements to expend redevelopment funds on affordable housing represent a challenge for many RDAs that have focused on retail revitalization or economic development, resulting in a lack of the specialized skills needed to finance or develop affordable housing. This situation is comparable to problems encountered by private real estate development companies that specialize in commercial projects; they often find that housing development requires a different set of skills that may not necessarily match in-house capabilities or orientation.

Private developers of mixed use projects sometimes resolve these problems by separating the residential component of a project and joint venturing or selling it to a specialist in residential development. Similarly, some RDAs have found that the most effective way to meet their affordable housing requirements is to contribute housing funds to another entity within the city or county, such as a specialized housing development department. In this way, RDA set-aside funds can be directly combined with other funding sources such as Community Development Block Grants to make affordable housing projects more feasible. Staff devoted to managing a community's affordable housing provision functions can utilize set-aside funds as one "tool" in overall planning and development.

While many RDAs in California have become expert in the difficult process of providing affordable housing in their communities, others have struggled with limited resources, lack of technical knowledge, or strong community resistance to developing projects.

In 1991, the Development Fund published *Making Housing Set-Aside Funds Work* which discussed some of the issues facing RDAs with respect to affordable housing. This publication identified the following guidelines as critical for successful RDA participation in affordable housing development.

Leverage Multiple Sources of Funding. Examples of this include combining RDA funds with federal Low Income Housing Tax Credits, first time homebuyer mortgage revenue bonds, or federal investment tax credits for historic

preservation. This guideline can be difficult to follow, as different funding sources often target different income groups, or place other contradictory restrictions upon use of funds.

Create Provisions for Investment Recapture. To maximize RDA expenditures on housing, assistance should be structured as loans with re-payments when appropriate, albeit with below-market interest rates or other forms of subsidy to make the project affordable. This guideline often requires deferral of payments until well into the operation of the residential project, when costs have stabilized and/or rising rents have off-set fixed debt service costs.

Maximize the Terms of Affordability. This key guideline is intended to highlight the need to extend the affordability of the unit being produced with RDA funds as long as possible. For rental projects, this could include a provision to transfer ownership of the project from a for-profit to a non-profit organization at some designated future time. For for-sale units, this guideline involves incorporating deed restrictions and/or some form of equity-sharing into the project's legal framework so that affordability is ensured for subsequent owners.

Build Community and Political Support. This guideline often separates successful from unsuccessful housing developers. Working with neighborhood groups and individuals from the moment an affordable housing project is being considered, or even prior to that point via the specific plan process, helps to combat the all-too-common reaction of "not in my backyard" that derails meritorious projects.

Work with Capable Partners. In some communities, RDAs face a dearth of experienced affordable housing developers. Partners in projects should be carefully selected based on past performance as well as current project concepts. To ensure a supply of capable partners, RDAs can work with industry-sponsored efforts to build capacity by training non-profit staff and board members.

Select Carefully Between Rehabilitation and New Construction Strategies. This guideline is intended to highlight the trade-offs between pursuing housing production versus housing rehabilitation strategies. In communities with high land and building costs, it is often difficult to build new units without prohibitive subsidies. These same communities, however, often have older housing units that can be purchased (and rents subsidized) at substantially lower costs. Both housing rehabilitation and new construction can also further neighborhood and even downtown revitalization strategies by removing blight and stimulating private property owner investment in commercial buildings.

Share Project Risks. This guideline reflects the need to share financial and land use entitlement risks that are inherent in most redevelopment project areas. Risk-sharing can be accomplished by creating development and financing partnerships with lenders, private developers, and other public agencies. Project risks can also be minimized by conducting proper market and financial feasibility analyses, as well phasing projects to minimize carrying costs.

Integrate Social Services into Housing Projects. For many segments of low and moderate income household need, there is a strong need for social services that can be better targeted if provided on-site within the residential project. Examples of this approach include housing with a child care facility, housing for low income seniors with on-site health providers and programs, and small transitional housing units with substance abuse or job referral programs.

The following recommended practices elaborate on these key concepts. Case studies have also been provided to illustrate examples of how these factors have affected affordable housing projects.

Assess Project Area Housing Needs

RDAs should participate in community-wide affordable housing needs assessments to identify specific affordable housing needs within project areas, and formulate housing strategies that meet those needs.

The AB 1290 Implementation Plan requires RDAs to show how they will meet affordable housing needs within project areas, and how projects will be funded. RDAs must structure affordable housing strategies that respond to local conditions, pro-actively identify suitable sites, plan for combining funds from other sources, and define the parameters of future projects. Yet one of the most difficult aspects of RDA affordable housing provision is identifying and addressing the needs of specific populations within project areas.

There are two affordable needs assessment processes that most California cities and counties conduct on an on-going basis: the Housing Element of the General Plan (pursuant to state law), and the Consolidated Plan required by U.S. HUD (which replaces the CHAS). Both of these can inform an RDA about local needs and viable solutions, and both should be structured so that data regarding housing needs within RDA project areas is collected at the time they are prepared. RDAs should become involved in each of the processes as applicable in their community; this approach will ensure that AB 1290 Implementation Plans are linked to broader city- or county-wide affordable housing strategies.

For many RDAs, this recommended practice is especially important with respect to meeting the needs of the homeless, a challenging task requiring very tailored approaches. As one of the primary categories of public agencies charged with the statutory responsibility to provide affordable housing for very low income households in California, some RDAs have come under increasing pressure to work with homeless providers and others to address homeless housing needs.

LOS ANGELES COMMUNITY REDEVELOPMENT AGENCY: PROJECT OPEN DOOR PROVIDES HOMELESS SERVICES

The Central City East Redevelopment project area (otherwise known as Skid Row) has experienced substantial preservation, rehabilitation, and construction of single room occupancy hotels (SROs) during the past 15 years, increasing the supply of these units by 6,000 rooms in 70 hotels. Many social service programs for very low income single persons have also been provided in this area. Yet, during the daytime, there are people on the streets who are not being served.

Project Open Door, a daytime drop-in center with a lending library, was conceived as part of a larger SRO housing project to meet the needs of these unserved community members. The facility offers a safe daytime place where one can use resources, receive referrals, and borrow books on the basis of trust. Users of Project Open Door have no formal obligations to meet. Clients tend to be homeless or people living in Skid Row facilities.

Project Open Door occupies 1,700 square feet of ground floor commercial space in the recently renovated Crescent/St. Marks SRO, a 146 room project. The project was jointly developed by Canaan Housing Corporation Consortium (a non-profit housing and services development arm of the Second Baptist Church of Los Angeles), the Los Angeles Central Library, and the Community Redevelopment Agency. The rehabilitated SRO opened in November 1992, and Project Open Door opened three months later.

CRA/LA ultimately invested $3 million for pre-development and site acquisition in the project. However, the daytime drop-in center experienced a shortage of funds (causing the lag in its opening). For projects like this, CRA/LA recommends that the social service element be developed on the same track as the housing portion so that funding can be coordinated.

The success of Project Open Door has not yet been formally evaluated. CRA/LA plans to measure success based on the number of people utilizing the facility as well as the number of referrals made.

It is recommended that RDAs participate in the homeless housing and social services planning process as required by the U.S. HUD Consolidated Plan. For this population, even conducting a valid needs assessment can be difficult. Because U.S. Census tends to undercount the numbers, providers have difficulty making an un-duplicated count, and many groups have conflicting viewpoints about critical needs and effective solutions.

Once needs have been assessed, projects can be formulated which serve local needs in innovative and practical ways. Project Open Door in Los Angeles offers an example of how RDA financing can be used to augment a project targeted to a very specific set of homeless needs in a heavily impacted neighborhood.

Maximize the Effectiveness of RDA Housing Investment

RDAs should maximize the effectiveness of their investment in affordable housing production in partnership with others.

Due to the amount of funds set aside for affordable housing production, RDAs have become an important "partner" in affordable housing production in many California communities. This RDA role can involve difficult policy decisions between investing substantial funds in a small number of housing units and investing more limited amounts of funds in a greater number of units.

For some RDAs seeking to meet legislative requirements, affordable housing investment has meant substantial financial assistance for just a few units. While this approach expedites meeting the set aside requirement, it can result in only limited increases in unit production for the community.

Other RDAs, in an effort to increase production, have become part of the larger problem faced by affordable housing developers needing multiple sources of financing to make a project feasible. Some projects had to obtain eight or ten sources of funds due to the general lack of availability of funding. The higher administrative costs entailed in such "layering" of funds, however, have resulted in higher per unit costs of production than would otherwise be the case if more concentrated assistance had been available.

Thus, the RDA must seek to maximize the effectiveness of its affordable housing investment so that project costs can be kept low and unit production goals can still be enhanced. There are a variety of methods to assist in achieving this difficult balance, including as follows:

- Limit RDA investment in any given affordable housing project to a fixed percentage of total cost. This recommendation is intended to spread RDA investment among a greater number of housing units, but must be balanced against the danger of making affordable housing projects infeasible if RDA investment becomes insufficient.

- Combine RDA investment with other city or county activities, or to meet multiple goals of the RDA (see Home in the Heights case study following).

- Form partnerships with local non-profits and developers to tap into Low Income Housing Tax Credits, other forms of federal affordable housing financing, and private investment that otherwise would not be attracted to the project area.

- Work with lenders to develop partnership programs utilizing Community Reinvestment Act funds.

- Research and understand cost factors, especially for new construction versus buying or rehabilitating existing housing units. In many communities facing housing stock preservation issues or high land costs, purchasing existing units can provide affordable housing at a fraction of the cost to build new units.

- Incorporate realistic payback requirements into commitments for affordable housing assistance whenever possible.

An excellent example of maximizing affordable housing investment is illustrated by the Home in the Heights program in San Diego.

MID CITY DEVELOPMENT CORPORATION (SAN DIEGO): HOME IN THE HEIGHTS

Mid-City Redevelopment Corporation (MCDC), an independent RDA established in 1992 by the San Diego Redevelopment Agency and the City Council, develops commercial and residential projects in City Heights (San Diego). City Heights, an ethnically diverse immigrant community, has seen substantial change in the past twenty years due to an influx of large families and construction of in-fill apartment projects. The homeownership rates have fallen dramatically since 1970, when about 80 percent of the residents owned their homes, to only 20 percent ownership by 1990.

In 1993, the San Diego Unified School District decided to construct two new schools in City Heights to serve a growing school-age population, displacing approximately 300 families. In February 1994, the MCDC implemented the Home in the Heights program, which provides first time home buying opportunities to displaced low income households. The program is structured so that relocation payments are used as a downpayment, and a forgivable silent second mortgage further assists with affordability. Homes purchased through the program must be located within the City Heights project area, and remain the buyer's principal place of residence.

Home in the Heights leverages funds in three important ways: required relocation payments are converted into home buying opportunities, the silent second (which is forgivable in 15 years if the owners remain in the neighborhood) encourages homeownership, and project area revitalization is enhanced by creating a stable community. An added program feature is that the silent second mortgage can be transferred to a subsequent home purchase, provided it is still in the project area, allowing residents to "move up" yet remain in the community. Single family homes, condominiums, and 2-4 unit properties are all eligible, but the second mortgage cannot exceed $15,000 or 15 percent of the purchase price.

To fund the program, a total of $350,000 was provided by MCDC ($100,000), Community Development Block Grant ($150,000), and the San Diego Housing Commission Shared Equity Program ($100,000). Lenders, realtors, and prospective program clients were required to attend a counseling seminar. In addition, first mortgage lenders were selected via an RFP process, ensuring competitive mortgage interest rates and terms as well as flexible underwriting standards. The program was designed to respond to lack of English skills and lack of trust of government assistance. To attract participation, a marketing program including telephone calls, brochures, letters, and door-to-door contact was targeted to approximately 100 qualified households. Approximately 25 home purchases have been assisted and MCDC is planning to expand the program.

Develop Expertise in New Forms of Housing

RDAs should develop expertise in new forms of affordable housing with integrated social services. This expertise should emphasize both effective forms of service delivery and control of development and operating costs.

The practice of providing affordable housing for low and moderate income households has evolved during the 1980s into a broad understanding of product types and target markets. Many housing developers have studied the housing needs of their communities in great detail, and have experimented with new forms of housing that integrate social services at the same site. Examples of these types of housing projects include housing with on-site child care for working parents with young children, elderly housing with social programs and on-site health care, housing for physically and mentally disabled persons, and Singe Room Occupancy (SRO) projects targeted to very low income single person households.

These new forms of housing tend to share two key attributes: the need for unit and project designs to accommodate special activities and occupants' needs, and a deep understanding of the social services that best implement project goals. RDAs, along with city planning departments and other regulatory and financing organizations, have sometimes resisted these new forms of housing because they do not fit into traditional methods of regulation or design. In addition, some projects with these attributes have gained notoriety as being very expensive. RDAs must seek to gain expertise in alternative design concepts and social services programming in order to improve service delivery and lower development and operating costs. The Casa Loma project in Los Angeles highlights some of the obstacles faced by RDAs financing these types of projects.

Los Angeles Community Redevelopment Agency: Casa Loma – Affordable Housing with Complementary Social Services

Casa Loma illustrates how RDA housing funds can serve community members with specific housing needs, as well as some of the problems encountered when developing new forms of housing. In 1984, New Economics for Women (NEW) conceived of its first project, Casa Loma, as housing designed to assist single working parents by providing residences, education, and child care in one location. The 110-unit project opened in May 1993 on a parcel near downtown Los Angeles. Units range from studios to four-bedrooms, which rent from $89 to $450 per month respectively. The site contains a 9,854 square foot child care center, a community center, and a computer learning facility. Services offered include parental training, coordination of elderly and children daycare programs, vocational counseling, financial planning, GED certification, and English literacy programs.

Community input was obtained for Casa Loma via focus group meetings of neighborhood working mothers. These groups emphasized tight security and plentiful playground/open space. As a result, kitchens and dining rooms/living rooms were given an open design so that parents could supervise children from the kitchen. Walk-in closets were eliminated from the original plans due to a concern that they would be used as additional bedrooms.

Financing received from CRA/LA included an initial pre-development loan, a construction loan, and a permanent loan for a total of $5,276,954. CRA/LA money was restricted to physical improvements only. Other financing sources included commercial loans from American Savings Bank, a grant from United Way for $97,000, construction and permanent financing totalling $3,645,000 from the State of California Department of Housing and Community Development Rental Housing Construction Program (RHCP); financing from the Century Freeway Loan Program; and federal Low Income Housing Tax Credits.

Several difficulties were faced during development. NEW, as an inexperienced developer, had difficulty obtaining conventional financing. However, a CRA/LA pre-development loan assisted NEW in obtaining subsequent financing. In addition, the project faced design review concerns due to its innovative combination of housing and social services. The project also gained notoriety as an expensive project, highlighting the need to control costs for housing with a services component. Finally, because NEW failed to create an agreement with the child care operator, concerns regarding fees charged to parents and the proportion of off-site children accepted as participants became concerns.

CHAPTER 8: DEBT AND FINANCIAL MANAGEMENT

RDAs face a complex set of legal and procedural requirements related to debt issuance and financing activities. Each October 1, redevelopment agencies are required to submit to the County Auditor-Controller's Office a *Statement of Indebtedness*, a *Reconciliation Statement* and a *Calculation of Available Revenues* that list the contractual, legal, and other forms of indebtedness the RDA has incurred for a redevelopment project. An RDA may not receive tax increment revenues if it does not have debt, if it already has sufficient cash on hand to meet obligations coming due in the current fiscal year, or if it fails to file a *Statement of Indebtedness*.

When a new redevelopment project is adopted, it typically has no revenue for the initial operating year. Until the RDA incurs debt, it is not entitled to receive tax increment revenue, but entering into debt with no revenue stream for collateral is difficult. To resolve this dilemma, most RDAs with new project areas enter into loan or general services agreements with their city so as to immediately "create" debt. RDAs may also look to developers to provide front-end financing to be repaid when tax increment revenue begins to accrue.

With existing project areas, particularly those issuing tax allocation bonds, sufficient debt already exists through various agreements or previously-issued tax allocation notes or bonds for tax increment revenues to be flowing to the RDA. It is important to note that case law decisions have ruled that an RDA's debt is measured in the aggregate, not on a year-to-year basis. However, recent changes to the law regarding the filing of the *Statement of Indebtedness* require an RDA to "demonstrate" that it does not have sufficient resources "on hand" to meet its annual obligations regardless of its aggregate liabilities, thereby supporting the need for tax increment revenues.

AB 1290 fundamentally changed the way RDAs must manage their debt programs. The new law imposes strict time limits on incurring debt, carrying out plan activities, and receipt of tax increment. These changes, as well as the changes to the *Statement of Indebtedness*, make it imperative that RDAs utilize tools to effectively monitor and manage their finances.

In this chapter, two basic managerial tools are discussed: (1) a debt management policy to govern an RDA's debt financing-related activities, and (2) a financial management program to assist the RDA's day-to-day operations.

Developing a Debt Management Policy

A debt management policy enables decision-makers to focus on the prudent use of debt, the RDA's capacity to incur additional debt, the most advantageous method to issue such debt, and the economic viability of projects to be financed by the debt. Coupled with a financial management program to implement the policy, this process can ensure that financing activities remain consistent with the goals of the redevelopment plan. A well-designed debt management policy can also result in higher credit ratings, which in turn, reduces the costs of borrowing.

A formal debt management policy can also smooth the transition between agency directors or changes in the board. Because most debt financing obligates RDAs to meet long-term legal and financial covenants, it is important for current management to consider how present agreements may adversely affect future managerial flexibility.

A debt management policy can assist small or relatively inactive RDAs, where RDA financing activities are usually managed by the city's or county's finance director. In these cases, it is important to develop debt policy guidelines which distinguish RDA debt and financing activities from General Fund activities to ensure that RDA debt will be managed in keeping with the targeted approach and special powers associated with redevelopment. As part of RDA debt management, multi-year cash flow analyses can be developed to reflect the long-term nature of redevelopment projects. This helps to distinguish the needs of the RDA from the shorter year-to-year budgetary focus of the General Fund.

DEBT MANAGEMENT POLICY COMPONENTS

- ✓ *Debt Management Policy Statement*
- ✓ *Project Area Expenditure Prioritization Criteria*
- ✓ *Debt Issuance Guidelines:*
  - *Competitive vs. Negotiated Sale*
  - *Debt Financing Team Selection*
  - *Parity/Subordination Issues*
  - *Credit Enhancement Structures*
  - *Other Debt Structuring Issues*
- ✓ *Staff Evaluation Report for Debt Issuance*
- ✓ *Frequency of Policy & Financial Review*

Formulate a Debt Management Policy Statement

RDAs should formulate a debt management policy statement to concisely state the goals and objectives of the RDA. The debt management policy should also describe how the RDA intends to bridge the gap between the financing needs of long-term redevelopment plans and the on-going use of limited financial resources.

In very clear terms, the debt management policy statement should outline the RDA's financing goals and objectives to provide direction for RDA staff. The policy statement can be formally adopted by the RDA board, or it can simply be an internal management tool that provides guidelines on financial issues which the RDA should address in the course of its activities. The process of developing a simple debt management policy can greatly benefit an RDA because important strategic and managerial issues must be debated and articulated.

To be effective, an RDA's debt program must be consistent with the overall redevelopment plan. In fact, a debt management policy with an associated cycle of annual financial management review and reporting can serve as part of the implementation plan required per AB 1290.

Establish Criteria for Prioritizing Project Area Expenditures

The debt management policy should prioritize project area expenditures or provide guidelines for conducting this prioritization on a regular basis.

Capital planning goes to the very heart of the redevelopment plan. The capital planning process requires the interaction of all the other elements of redevelopment practice: from land-use management and social/political considerations to economic intervention programs for blight removal. The debt management policy should address the procedure for annual and long-term project expenditure prioritization to assist management in allocating tax increment revenues consistent with the overall redevelopment plan.

Conceptually, the capital planning process can be readily designed. In practice, however, the complex interaction of social and political factors may make it difficult to assess the RDA's capital projects and prioritize needs based purely in economic terms. Public sector capital planning differs fundamentally from private sector capital planning where there are various methods to calculate return on capital. In the public sector, the assessment of any given capital project must encompass the "external" dimension of the cost and benefits of the project. Yet, despite the complexities, public managers often succeed in developing in-house capital planning models. To the extent that the RDA can formalize the prioritization process, special interest groups and political considerations will have less of a role in determining the expenditure of capital funds.

Provide Guidelines for Debt Issuance

The debt management policy should provide guidelines for the process of debt issuance and general criteria for issuance of debt. These should be closely followed whenever new debt issuance is being contemplated.

This component of the debt management policy should state the RDA's guidelines for debt issuances. To the greatest extent possible, the policy should set forth criteria for approaching method of sale decisions, selection of the debt financing team, parity/subordination issues, debt structuring considerations, and credit enhancement structures.

The criteria established in the debt management policy should be utilized for each debt issuance, and should be documented as part of a staff evaluation report. In developing criteria for debt issuance, each RDA needs to realistically assess its own credit strength. Using this approach, the RDA needs to differentiate the types of project area it has established and from there begin to formulate optimal debt capacity scenarios and develop criteria for the prudent use of debt.

Method of Sale of Debt Decisions. According to the CRL, redevelopment agencies are required to sell new money issues using the competitive method of sale. However, a 1987 amendment to the Marks-Roos Local Bond Pooling Act of 1985 allowed local agencies, including RDAs, to sell any type of bond to a public financing authority on a negotiated basis, notwithstanding other provisions of the law.

Because RDAs have this flexibility, it is important that the debt management policy set forth criteria for choosing the method of sale that is most advantageous for a particular debt offering. Specifying the criteria provides an analytical framework for the method of sale decision and minimizes the potential for abuses. One approach is to adopt the

recommendation of the Government Finance Officers Association of the United States and Canada (GFOA) to use the competitive method of sale unless an analysis of specified factors indicates that a negotiated sale will result in more favorable terms.

Factors RDAs should consider in determining the method of sale include as follows:

- *Market Familiarity.* The more the market is familiar with the RDA's credit, the less important is the need for negotiated sale.

- *Credit Strength.* RDAs that have already established a strong credit rating have less need for negotiation. RDA credit factors such as the size and diversity of the project area tax base, and the revenue pledge, should also be examined.

- *Story Bonds.* Bond issues associated with unusual events or conditions, such as the nature of the project area, might benefit from the more effective pre-sale marketing offered in a negotiated sale.

- *Market Conditions.* When interest rates are stable, timing flexibility is offered by the negotiated sale.

- *Issue Size.* If the issue is too small or too large, the RDA should consider negotiating the sale.

- *Issue Complexity.* "Plain vanilla" issues lend themselves to a competitive sale.

In addition to the criteria, the debt management policy should specify that an evaluation of the method of sale be conducted for each issue. Because circumstances and conditions related to the RDA's debt may change over time, it is in the best interest of RDAs to evaluate the method of sale each time it goes to the market.

Debt Financing Team Selection. The debt management policy should specify how the members of the RDA's financing team are selected. Like the competitive-negotiated sale decision, the selection of financing team members can be subject to abuse. In 1993-94, for example, influence peddling and other allegations of "pay-to-play" arrangements related to financing team selection in Massachusetts, New Jersey, and other jurisdictions rocked the municipal finance community. To avoid these problems, the RDA's debt management policy should outline the procedures to be used in procuring professional municipal finance services, including the process for selecting service providers (e.g., through a competitive process versus other approaches) and the RDA's conflict-of-interest requirements (e.g., lobbying and political contribution restrictions).

This policy should apply to all members of the financing team, which may include the following professionals:

- *Financial Advisor.* Typically, this municipal finance professional advises and assists the RDA in formulating a financing plan (e.g., evaluate revenue sources, financing vehicles, etc.) and developing a financing structure. The financial advisor can also assist the RDA in preparing bond documents and evaluating bids in a competitive sale or selecting the underwriters and negotiating the terms of the sale in a negotiated sale.

- *Underwriter.* The underwriter purchases the bonds from the RDA and re-offers them to investors in the securities market. The underwriter assists the RDA by developing a financing structure for the debt. Underwriter selection, however, is necessary only in negotiated sales.

- *Bond Counsel.* The bond counsel renders an opinion attesting that the bonds are valid and binding. The bond counsel also examines the debt issue's compliance with State laws and federal tax and securities laws, including the tax-exempt status of the issue.

- *Trustee.* The trustee performs various administrative duties related to the debt issue on behalf of the RDA and the bondholders. These may involve establishing, holding and managing bond funds; paying interest and principal of the bonds; monitoring issuer compliance with the covenants; and enforcing remedies in the event of default.

- *Other Professionals.* The RDA may engage other service providers to assist in the debt financing. For example, the RDA may hire an independent fiscal consultant to review tax revenue assumptions and debt capacity of the RDA, or an arbitrage agent to calculate arbitrage liabilities. In general, inclusion of a feasibility report by an independent fiscal consultant as part of the financing documents will improve market reception to the debt issue.

Finally, the RDA legal counsel's participation in the financing should be encouraged. In most instances, the RDA counsel will be more familiar with the RDA's redevelopment programs and outstanding contracts and liabilities than bond counsel. Moreover, the RDA's legal counsel will solely represent the RDA.

Parity/Subordination Issues. If the RDA has other project debt outstanding, then senior versus subordinate lien considerations become important. The debt management policy should define a set of guidelines for debt subordination. Furthermore, the policy should provide a clear approach to coordinating RDA debt with overall financial activities such as interagency loans, Disposition and Development Agreements (DDAs), Owner Participation Agreements (OPAs), and other agreements that create debt. Frequently, RDAs issue bonds to finance a specific project pursuant to a DDA. Before entering into the DDA, however, the RDA should review all of its needs and existing debt to ensure that the bond issuance is feasible.

When entering into any debt agreement, RDAs should consider future subordination issues. Failure to do so can result in bond structures that do not provide the RDA with the "clearest" security structure because DDAs, OPAs, and pass-through agreements can create prior liens on the tax increment revenues or, in isolated cases, ambiguous language which may require the RDA to reopen negotiation with the parties to the DDAs, OPAs or pass-throughs before a debt financing can proceed. Thus, it is strongly recommended that, whenever possible, DDAs/OPAs should be subordinated to current and future public debt of the RDA. The debt management policy statement should reinforce this approach. It should be noted again, that under AB 1290, there is a statutory subordination provision for pass-through payments to taxing agencies.

Credit Enhancement Structures. RDAs often secure credit enhancements to improve the debt instrument's marketability to investors. For RDAs with several project areas, a viable form of credit enhancement is the common debt service reserve fund. This fund secures more than one project area tax allocation bond, linking financially "weak" and "strong" project areas so that the stronger project area provides security to the weaker project area through the replenishment provision of a common reserve fund.

For relatively new project areas or major developments, RDAs have relied on an escrowed bond structure to enhance credit. This approach involves retaining bond proceeds in escrow under trustee control, with proceeds released systematically upon realizing pre-determined actual pledged revenue coverages. Escrowed bonds usually carry extraordinary mandatory redemption provisions that will make them less attractive to investors. However, the escrow feature enables a financing to produce adequate coverage that is satisfactory to potential investors.

The pooling of several bond transactions into one larger financing through a Marks-Roos Joint Power Authority is another credit enhancement alternative for RDAs. This structure can offer economies of scale to RDAs with small financing needs where individual transactions bring prohibitively high transaction costs. By spreading the fixed costs of the transaction among several transactions, small transactions become feasible. A variation of the pooling concept is the senior/subordinate lien structure that is widely used in assessment district financings. A Joint Powers Authority pooled financing is also commonly used for cross-collateralization of tax allocation revenue bonds issued for housing purposes.

Other Debt Structuring Considerations. Nearly all tax allocation bonds have a debt service reserve fund. For large, well built-out project areas with strong coverages, a debt service reserve surety policy should be explored to reduce the size of the debt offering. In analyzing a project area's bonding capacity, subvention revenues should not be used; however, such subvention revenues can be used for coverage calculations (depending on the security pledge).

Of all the legal structures to be considered in a debt issuance, one of the most important is the additional bonds test covenant. Because RDAs have no authority to levy taxes, rating agencies view the additional bonds test to be an important factor in their credit review. RDAs must balance a stringent additional bonds test that may give it a

more favorable credit review against financing flexibility. An overly stringent additional bonds test can seriously hamper the RDA's ability to fund future projects.

The criteria for debt issuance should also consider whether the RDA will bond its housing fund. Capitalization of the housing fund places numerous restrictions on the expenditures of bond proceeds allocated to the housing fund which should be analyzed by the RDA.

Require a Staff Evaluation Report for Each Debt Issuance

The debt management policy should include a requirement that a staff evaluation report be completed prior to the issuance of any debt.

Having a debt management policy will only be helpful to an RDA if it is executed. To ensure that the RDA's financing activities comply with the stated guidelines, the debt management policy should require a staff report prior to any debt issuance. A staff report should include an evaluation of whether the proposed financing meets the stated debt policy and at a minimum, cover the following:

- Description of the project to be financed, including description of how the project meets the goals of the project area plan; an indication that the proposed issuance was part of the currently adopted implementation plan, or that the plan will be amended to include the issuance; whether or not the project's incremental tax revenues will be sufficient to fully support debt service; response to developer interest solicitation; description of the project's expected generation of additional benefits to surrounding properties in the project area; and the financial soundness and experience of the developers of the project.

- An evaluation of debt financing versus pay-as-you-go; and a pro-forma debt capacity analysis of the project area to incur the additional debt. The evaluation should also consider the costs and benefits of bonded debt issuance versus alternative financing, including issuance on a taxable basis.

- Description of the type of developer agreement to be executed for the project, and identification of any potential conflicts with existing bond indenture covenants.

- Reason(s) for diverging from the debt management policy, to the extent that the guidelines are not followed.

Review Financial Situation and Debt Policy

The debt management policy should state when and the extent to which a debt capacity analysis will be conducted and reported, and how often the policy should be revised.

Much of the implementation of a strong debt management policy will involve a debt capacity analysis. The debt management policy should state when and the extent to which the debt capacity analysis will be conducted and reported to the RDA board. For large RDAs, this analysis should be conducted on an annual basis, and could take the form of an annual report of the RDA board.

The debt management policy should also have a component that specifies periodic review and refinement of the entire Policy. The appropriate frequency of this activity depends on the circumstances of the RDA. For active RDAs, an annual review of the debt management policy is recommended. For less active redevelopment agencies that have not incurred new debt for the past three or four years, a less frequent review cycle is sufficient, and may correspond to the implementation plan cycle.

Implementing a Financial Management Program

The purpose of the financial management process is to formalize the procedures needed to analyze the existing debt position of the RDA and to assess the potential impact of future financing requirements on the RDA's ability to service additional debt. Financial management is a dynamic process, providing management with an analytical framework to assess the RDA's financial position. The financial management program could be a part of the RDA's implementation plan or supplement the information in the plan by providing a realistic assessment of revenue potential.

FINANCIAL MANAGEMENT PROGRAM COMPONENTS

- ✔ *Debt Capacity Analysis*
- ✔ *Statement of Outstanding Indebtedness Including*
  - *Existing Bond Covenants*
  - *Revenue Forecast Based On:*
    - *Assessed Valuation Growth*
    - *New Development Value*
    - *Supplemental Revenues*
    - *Unitary Revenues*
    - *Assessment Appeals*
    - *Pass-Through Agreements*
    - *Tax Delinquencies*
- ✔ *Process for Monitoring Tax Base*
- ✔ *Investment Policy*
- ✔ *Secondary Market Disclosure*

Conduct Annual Analysis of Debt Capacity

RDAs should conduct an annual analysis of debt capacity to monitor future potential resources for continued project area plan implementation.

The annual review of an RDA's debt capacity has several long term benefits. Debt capacity analysis alerts management to any material change in the project area's tax base, enables management to respond in a prepared manner to requests for financial assistance, and provides the analytical tools to develop financing strategies. The following g constitutes an example of a debt capacity analysis approach. An illustration of a debt capacity analysis can also be found in Appendix A of this report.

Prepare a Statement of Outstanding Obligations. A well-prepared Statement of Outstanding Obligations documents all financial obligations so that present and future management can track and manage the RDA's capacity for additional debt. This Statement should include all types of indebtedness, from interagency loans to publicly-issued debt to the financial obligations incurred by DDAs and OPAs. Pass-through agreements should be summarized. Lien status should be documented by compiling a flow of funds statement for tax increment revenues (including developer subsidies, which may have a senior or junior claim on tax increment dollars).

If an RDA has entered into any development guaranty agreements, the nature of such guaranties should be clearly stated. This is especially important if such agreements remain long-term liabilities of the RDA. Consistent with AB 1290, any deficits in the RDA's housing set-aside fund are explicit debts of the RDA and should be identified as such. If applicable, an RDA's "Deficit Reduction Plan" for the housing set-aside requirements should be incorporated into the Statement of Outstanding Obligations.

Document Existing Bond Covenants. Upon completion of a financial transaction, an RDA should properly document the various legal and financial requirements which it has covenanted to observe for the duration of the debt. Limitations on redevelopment revenues, expiration dates, and other relevant facts should be compiled in a central location for all debt issues, so that all RDA covenants can be easily identified.

The following items should be documented:

- Funding dates for debt service payment accounts
- Debt service reserve fund requirement
- List of permitted investments
- Additional bonds coverage test
- Subordinate bonds coverage test
- Deadline dates for filing audited financial statements
- Anniversaries for arbitrage rebate calculations (if applicable)
- Filing of Form 8038-T to the IRS
- Secondary market disclosure requirements (if any)

Most agencies retain a bond trustee to hold certain funds of the transaction. The RDA should take an active role in overseeing the activities of the trustee to ensure that all cash is quickly reinvested, and that all accounts are properly documented for arbitrage rebate calculations; these must be computed and Form 8038-T filed with the Internal Revenue Service every five years and within 60 days after the final maturity on the bonds.

Forecast Revenues. In addition to an assessment of outstanding obligations, a debt capacity analysis should include a projection of the amount of revenues the RDA will receive. A basic revenue forecasting model should incorporate the following factors:

- Assessed valuation growth
- New development value
- Supplemental revenues and unitary revenues
- Assessment appeals
- Pass-through agreements (as applicable)
- Tax delinquencies

For debt capacity planning purposes, it is useful for an RDA to develop aggressive, moderate, and conservative forecasts for at least a five-year period for these factors. Each factor is discussed below.

Assessed Valuation Growth. Property tax is administered by counties. For redevelopment project areas, property taxes levied against the base year assessed value are allocated and paid to the taxing entities in the project area as if the project area had not been adopted. Property taxes levied against the increased value (or the incremental assessed value) are allocated and paid to the RDA for use in the redevelopment project area. Calculating the incremental assessed value and collecting/disbursing the proper amount of tax revenue to RDAs is a complex process that is beyond direct RDA control, but can greatly impact RDA revenue flows.

There are typically three county departments that work together during the assessment, levy, collection, allocation and disbursement process. These departments are: (1) the assessor's office, which is responsible for assessing and appraising property, mapping, and parcelization, and assigning value into tax rate areas; (2) the treasurer-tax collector's office, which is responsible for issuing property tax bills and collecting the property taxes; and (3) the auditor-controller's office, which is responsible for calculating the levies and allocating and disbursing property taxes to the taxing entities once the taxes are collected.

The order and accuracy of these tasks are as important as the tasks themselves. The assessor's office assesses and groups properties into tax rate areas. This grouping allows the auditor-controller to allocate and disburse collected property taxes to the taxing entities having taxing jurisdiction within that tax rate area. Once the auditor-controller receives the assessed values of properties from the assessor, the auditor-controller calculates a levy based on appropriate tax rates for each tax rate area. Once the levy is calculated, the auditor-controller transmits this per parcel data to the treasurer-tax collector's office, who issues property tax bills that come due each December 10 and April 10. Once the property taxes have been collected by the treasurer-tax collector, the auditor-controller distributes the taxes to each taxing entity based on their share of the 1.0 percent tax rate.

It is important for RDAs to occasionally review the underlying tax roll and the calculation of the levy and the disbursements. In some instances, reviews of these calculations have identified significant lost revenues, due to errors or miscalculations at the county offices. For smaller or understaffed RDAs, an experienced fiscal consultant can assist in this procedure.

Assuming that the baseline estimate of tax increment accruing to the RDA is accurate, the revenue forecasting model should in most instances increase this increment by two percent per year, in keeping with Proposition 13 regulations. However, RDAs may actually face declining increment in areas hit by real estate downturns.

New Development Value. As new development occurs in a project area, its value must be assessed and added to the tax roll. Many counties lag several months (or even a year or more) in assessing new development. In addition, larger developments that may be completed over twelve to eighteen months may result in a partial value being added to the tax rolls in one fiscal year and the remaining value added in the following fiscal year.

RDA revenue forecasting models should incorporate new development value added to the tax rolls for the project areas. However, RDA forecasts should be conservative in estimating both the amount of value to be added to the rolls from new development, and the timing (in terms of fiscal year) when these values are assumed to bring increased tax increment revenue to the RDA.

Both the timing and amount of new development value are variables that can contribute to the formulation of alternative revenue forecasts. It is important to note, however, that there is usually a relationship between RDA

investment in new projects and the resultant timing and volume of such projects. Therefore, varying RDA expenditures that may occur from alternative levels of new development activity (e.g., aggressive, moderate, or conservative) also need to be incorporated into revenue forecasts.

Supplemental Revenues and Unitary Revenues. Supplemental assessments are assessments that occur on a date other than the March 1 lien date. Property transfers that occur throughout the year are assessed an amount based on the old and new value of the property, proportionately split from the lien date to the sale date. In this manner, assessed valuations increase from the initial valuation reported by the county assessor. RDAs, like other taxing entities, receive tax revenue from the supplemental assessment and taxation of properties. In addition to property transfers, supplemental assessments also result from construction completed in the middle of an assessment year.

Most RDAs pledge the supplemental revenues they receive on an annual basis to service debt. For bond sizing purposes, however, supplemental revenues should be excluded because this type of revenue fluctuates dramatically from year to year and is difficult to estimate. Nevertheless, supplemental revenues offer RDAs additional "unanticipated" coverage that is seldom considered in credit analysis. For revenue forecasting purposes, supplemental revenues should be estimated separately.

Unitary revenue is tax revenue derived by the application of a tax rate to unitary property assessed by the State Board of Equalization and reported to counties on a county-wide basis. Typically, these revenues do not fluctuate dramatically from year to year. RDAs that include unitary revenue in their revenue projections should be conservative in their estimate of growth for this revenue source. For example, just because historical project area assessed values are growing by 6 percent does not mean unitary revenue will grow by 6 percent. Because these values are reported and taxes are paid on a county-wide basis, county-wide unitary value growth is the prevailing determinant in unitary revenue growth estimates. For this reason, an appropriate annual estimate of unitary tax revenue growth is no more than 2 percent.

Assessment Appeals. An assessee (property owner) may contest the taxable value enrolled by the county assessor if they think the value assigned to their property is greater than the fair market value. If the county assessment appeals board decides that the property owner has a legitimate case, a successful assessment appeal can potentially lower the property value (and resultant property tax). Values can be reduced in two ways: 1) a base assessment value reduction where the initial value enrolled by the assessor is deemed greater than the fair market value by the assessment appeals board; and 2) a Proposition 8 reduction or temporary reduction that lowers an existing assessment after the 2.0 percent compounding (per Article XIIIA of the State Constitution) to fair market value until such time as the economic value of the property returns to previous assessed value.

RDAs have little control over assessment appeals. Although RDAs can argue against assessment reductions before the appeals board, most agencies do not know that appeals have been filed against properties within their project areas. Because assessment appeals reduce assessed values, thus impacting incremental values in project areas, the impact to an RDA's revenue stream can be significant. This impact is on-going because, as is the case with Proposition 8 assessment reductions, the reduced value applies for as many years as it takes for the local economy to recover. With base assessment value appeals, the impact of a successful appeal continues indefinitely.

RDAs should recognize the potential revenue impact that can result from assessments adjudicated in favor of the appellant (property owner). Most counties have pending assessment appeals available for review; for large redevelopment project areas, these should be reviewed annually so that potential impacts can be factored into revenue projections. For smaller redevelopment project areas, a simple annual review of the appeals status for the 10 to 15 major taxpayers within the area is appropriate.

RDAs should also keep in mind that assessment appeals have two impacts: 1) an annual impact to revenues resulting from refunded taxes for prior year "overpayments" (assuming the appeals have been outstanding and taxes have been paid for more than one fiscal year) that results when assessed values and property taxes are decreased from the resolution of an assessment appeal; and 2) an ongoing impact from the lower assessed value. Both of these impacts should be factored into revenue forecasts.

Pass-Through Agreements. Pass-through agreements, or tax sharing agreements, are contractual agreements between an RDA and a taxing entity. These agreements reimburse taxing entities with jurisdiction within the boundaries of a project area for the fiscal burden caused by the adoption of a redevelopment project area and the resultant diversion of property taxes to the RDA. Prior to passage of AB 1290, pass-through agreements were negotiated between the RDA and the taxing agency. Under AB 1290, for redevelopment plans adopted or amended after January 1, 1994, there is a statutorily mandated pass-through to all taxing agencies. Pass-through agreements entered into prior to AB 1290 still remain effective, however.

Pass-through agreements can take various forms, from a pass-through of a percentage share of annual tax increment revenues that would have been allocated and paid to the taxing entity had the project area not been adopted, to a flat amount that escalates in steps based on a predetermined formula. In many instances, the pass-through payments required by the agreements are subordinated to debt service on tax allocation bonds of the RDA. However, most agreements contain provisions that require the RDA to size their bond issues such that payment of debt service on the bonds does not jeopardize the taxing entity's receipt of revenue. While this may limit an RDA's ability to pledge tax increment to debt service on bonds, the annual amount of the subordinated pass-through payments relative to debt service on the bonds acts as an artificial coverage factor that, in effect, enhances the credit-worthiness of the bonds.

As an alternative to tax sharing agreements, prior to passage of AB 1290 taxing entities could pass a resolution, often referred to as a "base year resolution" that allowed such taxing entities to receive revenue generated by the annual 2 percent compounding growth of the base year value. These revenues are not considered tax increment and do not count against a project area's tax increment limit.

Most agencies already include annual pass-through payments in their revenue projections. However, agencies should be aware of the manner in which these payments can increase or decrease. For example, if the pass-through payment is based on annual revenue, then any increase in tax increment will have a proportionate increase in the amount passed through to the taxing entity. If the pass-through agreement has steps, the RDA should be aware of and factor into their revenue projections the impacts that trigger a step. If possible, modeling the pass-through agreement as a component of the revenue projection is the best way to accurately reflect changes in the payment amounts.

Tax Delinquencies. RDAs, like all entities that receive property taxes, are impacted by the failure of property owners to pay property tax bills in a timely manner. Project area delinquencies can be determined through a historical property tax collection analysis; substantial delinquencies should be a factor considered in estimating future debt capacity. If one of the larger property owners in a project area fails to pay its taxes, an RDA's tax revenue will be dramatically impacted. Even numerous delinquent small property owners can affect the RDA's property tax collections. Thus, a revenue forecast should always assume a certain rate of tax delinquencies based on each project area's historical patterns. For RDAs located in a county that has adopted the Teeter Plan, or modified Teeter Plan, tax delinquencies would either be zero percent or based on the county's average delinquency rate.

Adopt an Investment Policy

Redevelopment agencies should adopt an investment policy to guide their investment activities.

As the December 1994 Orange County bankruptcy filing demonstrates, government agencies' investments can have a tremendous influence on their financial state. It is important, therefore, for redevelopment agencies to develop an investment policy to guide their investment decisions. The policy should specify how the agency's money will be invested and how the investments will be monitored. For many RDAs, the treasury staff of the city or county manages and invests agency funds. The RDA's investment policy, however, should be written to meet the agency's needs, notwithstanding the investment criteria of the city or county.

Assembly Bill 1290 requires RDAs to file a statement of indebtedness to "demonstrate" that they do not have sufficient resources "on hand" to meet their annual obligations, regardless of their aggregate liabilities. Consequently, in the post-AB 1290 environment, most RDAs will have very limited amount of funds, if any, available to invest beyond a one-year period. Disbursements of funds for these agencies usually occur within a short period of time, and the amount of long-term funds is relatively small. The investment policy should, therefore, recognize and be sensitive to the primarily short-term nature of the RDA's needs.

The investment policy should specify the goals for the RDA's investment activities. As with any public agency, the principal goal of RDA investments should be the preservation of principal. Redevelopment agencies should only invest in instruments that offer a high degree of principal protection. After safety, liquidity should be the RDA's next concern. Only after safety and liquidity

requirements are met should consideration be given to the yield of the investment.

> ***INVESTMENT OBJECTIVES***
>
> ***Safety.*** *Only investments that provide the highest degree of principal protection should be utilized for bond proceeds or RDA fund investment.*
>
> ***Liquidity.*** *The investment should be sufficiently flexible to enable the RDA to meet all disbursement requirements that could reasonably be anticipated.*
>
> ***Yield.*** *Only after the first two objectives have been met should the RDA attempt to achieve investment yields as close as possible to bond yields (if funds are from bond proceeds).*

Permitted Investments. The investment policy should provide guidelines for permitted investments of RDA funds. These guidelines may specify the instruments that can be used to invest RDA funds or may provide a general description of permitted investment instruments. At a minimum, these guidelines should be consistent with the permissible investments defined in the California Government Code.

The investment policy should also recognize any differences between investments of bond proceeds and other funds. Investments of bond proceeds are likely governed by a bond indenture's list of permitted investments. The investment policy of the RDA should be consistent with the language contained in the financing documents. The RDA may, however, decide to adopt a different set of guidelines for investments of operating or other funds.

Restricted Investments. To the extent that the RDA wants to avoid certain investment instruments, the investment policy should include guidelines on restricted investments. Again, these guidelines may specify prohibited investment instruments or may provide a general description of prohibited investments. These guidelines may include:

No Speculative Investments. In the past, some government agencies have used their investments to speculate on the movements of interest rate or other volatile security or index. While these investments tend to offer higher yields to investors, they also tend to carry a higher degree of risk of loss of principal. RDAs should avoid investing in volatile instruments, especially for speculative purposes.

Before an RDA invests in a pool or a mutual fund, it should make sure that the pool or mutual fund provides adequate protection for the investors. Moreover, if the RDA invests its funds in a pool or mutual fund, it should know about and understand the investment strategy used for the pool or mutual fund.

Investments Should Match Needs and Liabilities. RDAs should make sure that the maturity of their investments match their needs and liabilities. For example, it may be inappropriate for an RDA to invest the bulk of its funds in long-term instruments if it has short-term needs for those funds.

Investment Oversight. Regardless of who actually manages and invests the RDA's funds, the agency is ultimately responsible for its investments. Thus, it is important that the governing body and administrators be fully appraised of the investment activities of the RDA. At a minimum, there should be a quarterly reporting of compliance with the agency's investment guidelines and with statutory investment requirements, a detailed description of the RDA's investment portfolio, including market value, and other investment matters deemed appropriate.

Finally, it is important to recognize that Orange County's woes were caused by a flawed investment strategy, not by faulty investment instruments. Orange County sustained heavy losses because it did not invest prudently. To avoid problems similar to Orange County's, RDAs should be judicious about where and how they invest their funds, closely monitor their investments and investment practices, and always follow the basic rule of investing public funds: safety first, liquidity second, and yield last.

Monitor the Tax Base

RDA staff should closely monitor the tax base within each of its project areas to obtain early warning signals of declining property values.

The diversification of the tax base is an important factor that serves as an indication of a project area's ability to withstand adverse economic downturns. Should one of the larger property owners fail to pay their property taxes for a prolonged period of time, an RDA's ability to meet debt service payments may be jeopardized. Additionally, if a large assessee abandons its property or relocates out of the project area, the assessed value of the property is likely to decline dramatically, and, along with it, property tax collections.

At a minimum, the RDA should request a list of the major taxpayers in each of its project areas from the county assessor's office, including an historical comparison for at least five prior years. RDA staff should monitor these major employers through an actual periodic survey of employment levels; since a strong tax base, employment growth, and economic development are all interconnected for redevelopment projects, employment growth can provide a more accurate and earlier indication of credit trend than assessed value growth, given the long lead time between property re-assessments. Moreover, in new project areas, incremental assessed value growth will always be low, but a new project area with a strong employment growth trend can mitigate bond rating agency and investor concerns.

Culver City Redevelopment Agency: A Fiscal Management Program

The Culver City Redevelopment Agency carefully monitors the amount of tax increment it receives. Twice each year, the Agency's fiscal consultant reviews the status of property tax appeals on a property-by-property basis, reviews new construction projects approved and pending, and analyzes property sales to track property appreciation/depreciation trends. The review alerts the Agency to changes in property tax receipts.

The Agency's Cash Flow Analysis report tracks changes in tax increment and spending patterns. The evaluation of the information allows the Agency time to prepare an aggressive intervention strategy that involves expert testimony at appeal hearings to assist the Assessor's Office in understanding area-wide trends, not just individual property transfers that may have been based on foreclosures and defaults rather than open market transactions.

A recent analysis revealed an alarming decline in assessed value based on appeals. In response, the Agency is actively intervening in the appeal process as a responsible party.

Disclose Financial Data to Secondary Market

RDAs should generate concise, readable presentations of financial data for disclosure to the secondary market.

A major concern of many investors who purchase tax allocation revenue bonds is the lack of available project area financial data aft r the initial offering of the securities. Investors generally cannot obtain satisfactory data on such basic information as tax increment revenue collections, project area delinquency rates, current debt service coverage from pledged revenues, and investments.

Disclosure of financial data to the secondary market should be incorporated into financial management practices. Such disclosure can build goodwill and confidence with investors, helping the RDA to develop strong market reception to future RDA securities offerings. The debt management policy and financial management process described above presents a viable structure whereby an RDA can begin a secondary market disclosure program. As part of the debt management review process, pertinent information such as major taxpayers, collection record, and debt coverages would be readily available for management to convey to investors.

SECTION III

REDEVELOPMENT IN THE FUTURE

CHAPTER 9: NEW DIRECTIONS FOR REDEVELOPMENT

Several development trends that have recently emerged in urban areas around California may affect RDA practices in future years. These include the use of RDAs to address economic dislocation from military base closures or natural disasters, a movement toward "sustainable development," the popularity of transit-oriented or urban village development, the decline in manufacturing resulting in large tracts of underutilized land, and the dilemma presented by closed "big box" retail facilities.

Redevelopment During Economic Dislocation

Economic dislocation has become a new challenge to many communities in California during the past decade. This dislocation has arisen from changes in public policy resulting in the decision to close selected military bases, as well as from natural disasters such as earthquakes. Redevelopment is considered by many cities and counties as one of the most important solutions to economic dislocation from military base closures and disaster recovery.

Military Base Closures. From 1988 through 1994, California has been severely impacted by the closure or realignment of 22 military bases throughout the state. Under the provisions of the 1990 Base Closure and Realignment Act, additional closures are expected in 1995. According to the California Military Reuse Task Force, California's economy will contract by $7 billion annually and will have lost over 200,000 direct and indirect jobs once these closures/realignments occur.

This type of economic dislocation can bring increased unemployment, lower property and tax revenues, decreased schools funding, and an attendant rise in demand for public services that local governments cannot afford.

RDAs have the potential to play an important role for communities seeking a mechanism to manage and finance the reuse of closed military bases, either as the designated lead agency (Local Reuse Authority) or as a participant in the financing of the conversion process.

To facilitate the participation of RDAs in the base reuse process, the State of California has authorized the formation of Joint Powers Redevelopment Authorities for impacted areas, allowing multiple jurisdictions within a county to consolidate their redevelopment efforts.

Several issues currently affect the efficiency of using redevelopment as a tool for base conversion, including as follows:

- *Findings of Blight.* For military base conversion-related project area formation, RDAs have two options regarding making a finding of blight. The RDA can follow the procedures pursuant to AB 1290, which requires the project area

to be "predominately urban, suffer from prevailing and substantial economic and physical conditions." This approach presents limitations when the military base is not in an urbanized area or when its only blighted condition is inadequate infrastructure. New legislation (SB 915 and AB 69) provides an alternative procedure that recognizes closing military bases as blighted and removes AB 1290's "predominately urban" requirement. However, it has more restrictive pass-through requirements which significantly limit the financial benefits of redevelopment.

- *Base Year Valuation.* When a military installation transfers to nonfederal ownership, the assessed value changes from zero to the county assessor's office assessment of fair market value (or the actual purchase price, if funds are paid). When an RDA project area is formed, the assessed value at that point in time is critical to the calculation of tax increment. Thus, it is highly recommended that communities considering using redevelopment as a mechanism for base conversion form their project area prior to the transfer of the facility to nonfederal ownership.

- *Provision of Affordable Housing.* Military base conversion planning processes must incorporate requests for housing and other facilities for use by homeless service providers pursuant to the McKinney Act and related federal legislation. For base reuse authorities utilizing redevelopment as a tool for base conversion, this requirement intersects with the CRL requirements regarding the provision of low and moderate income housing. Several communities forming redevelopment project areas to assist in base conversion have been the subject of special legislation which eliminates the potential double-counting which could occur in satisfying McKinney Act facility requests and CRL low and moderate income housing requirements.

SACRAMENTO HOUSING AND REVELOPMENT AGENCY: AFFORDABLE HOUSING AT MATHER AIR FORCE BASE

Mather Air Force Base was closed by the Department of Defense under BRAC 1988, and is currently undergoing conversion. The Sacramento Housing and Redevelopment Agency (SHRA) is negotiating with the Air Force to acquire 1,271 existing single-family homes at Mather to provide affordable housing opportunities. The Agency intends to double-escrow the property transfer so that conveyance from the Air Force to the Agency occurs simultaneously with transfer from the Agency to two housing developers.

The SHRA, with a 1995 budget of $244 million and a full time staff of approximately 360, is a combined city/county RDA under the direction of the Sacramento Housing and Redevelopment Commission. The SHRA served as the lead for Mather Air Force Base reuse planning, incorporating a strong affordable housing element into the plan. In addition to the single family permanent housing component described below, the Reuse Plan calls for the provision of transitional housing and employment training for up to 60 families and 200 single persons.

Two residential builder/developers, Lewis Homes and Elliot Homes, were selected to receive the single family units via a Request for Proposals. The SHRA and the two companies have entered into a Development and Disposition Agreement under which the developers will rehabilitate and market the single-family homes, with 30 percent of total units reserved for households at or below 80 percent of the area median household income (AMI), and 10 percent reserved for households earning below 70 percent of the AMI. The balance of the units can be sold at market prices. While the developers assume the risk of rehabilitation and sale of market rate homes, the SHRA will facilitate sales to low income buyers using existing incentives such as mortgage credit certificates and a mortgage revenue bond program. In addition, Sacramento County will contribute $500,000 to assist eligible homebuyers with downpayments and closing costs via silent second mortgages. SHRA staff are pursuing additional funding sources such as CDBG, HOPE III and County Housing Trust Fund. The SHRA will connect funding sources with eligible households as well as provide counseling and eligibility assessment.

This promising approach to base conversion using an RDA reached an impasse in late 1994, however, due to a disagreement between the Air Force and the SHRA regarding the fair market value of the subject housing units. Appraisers representing the Air Force and SHRA had set widely divergent values for the units based on two very different absorption scenarios. To resolve this dispute, the SHRA and the Air Force agreed to commission a third appraisal to estimate a value based on a realistic absorption scenario.

Disaster Recovery. When a Major Disaster or Emergency Declaration has been made by the President of the United States, individual citizens, businesses, and state and local governments affected by the emergency become eligible for aid from state and federal disaster assistance programs. However, there are limitations to this assistance. There is much uncertainty regarding the amount of assistance and timing of receipt of funds, making it difficult to schedule local recovery efforts. Often, federal and state funds do not fully cover the cost of repairs or loss of tax revenue, leaving the gap to local government to bridge. Due to these problems, it often becomes necessary for an RDA to assume a role in the disaster recovery process.

In California, many recovery processes are led by an RDA, which serves as a coordinator between federal disaster relief agencies and local disaster victims. RDAs can provide financial and technical assistance to disaster victims, such as loans or grants for building repair, installation of urban design improvements in damaged commercial areas, or assistance to merchants so they quickly re-open their doors and avoid business relocation.

Two key issues should be considered by RDAs responding to natural or man-made disasters: redevelopment plan adoption, and resetting the base year for tax increment calculation purposes.

Plan Adoption. There are two strategies to adopt a plan when no existing RDA or project area encompasses an area impacted by disaster. The city or county can adopt a plan using the Community Development Financial Assistance and Disaster Project Law (Disaster Law), or seek special legislation under the provisions of the CRL as amended by AB 1290.

The Disaster Law, adopted in 1964, allows an expedited process for plan adoption and agency formation limited to approval by city council/board of supervisors, with no legislative review. Redevelopment plans adopted pursuant to this Section are also exempt from referendum, environmental review, consultation with other taxing entities, and several other requirements which affect the normal plan adoption procedure.

The Disaster Law has not been significantly amended since its adoption, and therefore does not reflect the many revisions to the CRL procedure for plan adoption, including AB 1290. The advantages of using the Disaster Law are its expedited process and presumption of exemption from other CRL requirements, making it potentially an attractive approach.

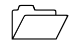
However, adopting a redevelopment plan pursuant to the Disaster Law has the disadvantage of exposing the plan to legal risks arising from challenges by other taxing agencies. A recent example of this risk is offered by the case of the City of Santa Clarita, which faces a lawsuit challenging its newly-formed redevelopment agency by the Castaic Lake Water Agency. The water agency filed its suit to protect property tax revenues it collects to make $11 million annual debt service payments on $132 million of certificates of participation issued in 1990. The water agency based its suit upon the lack of environmental review compliance under existing CRL provisions. As of the date of this report, the case has not been settled or resolved in court.

It should also be noted that, subsequent to the Northridge earthquake, the Disaster Law has been subject to efforts to limit its use and bring greater scrutiny to its plan adoption process.

Another strategy for expedited plan adoption is to obtain special legislation from the State of California based upon the CRL and the provisions of AB 1290. While this approach streamlines the process and lowers an RDA's exposure to legal risk, it usually requires case-by-case negotiation of terms and therefore results in greater restrictions placed on the plan than those contained in the 1964 Disaster Law. In addition, this process can be time-consuming, which is counter to the needs of the affected community.

Resetting the Base Year. For RDAs with existing project areas affected by a natural disaster, additional tax increment can be generated to help pay for recovery programs by securing special legislation to revise the base tax year used to calculate tax increment. In the aftermath of Loma Prieta earthquake, the State of California enacted special legislation, SB 39X (Redevelopment Base Year Correction) which reset the base year to reflect lowered property values due to the earthquake's destruction. This revision enables an RDA to realize greater tax increments that can be used for disaster recovery purposes.

The City of Santa Cruz, which experienced substantial damage from the 1989 Loma Prieta earthquake, is a recent example of an RDA assisting in a recovery program.



THE CITY OF SANTA CRUZ REDEVELOPMENT AGENCY: EARTHQUAKE RECOVERY FOR DOWNTOWN SANTA CRUZ

The 1989 Loma Prieta earthquake devastated downtown Santa Cruz. Damage to commercial and public facilities totaled approximately $53 million, and 206 of 600 downtown businesses were destroyed or displaced. Moreover, the City lost significant sales and property tax revenues, and the Downtown Parking District faced a major shortfall in revenue to meet its debt service for parking facility bonds.

To protect dislocated businesses and reconstruct its downtown, the City of Santa Cruz quickly established a task force, known as *Vision Santa Cruz*. This group quickly formulated the "Phoenix Pavilion Project" that provided 35,000 square feet of pavilion tents erected on city-owned downtown parking lots. The goal was to find a short-term way to keep businesses in downtown while buildings were repaired or new buildings were constructed. Tent space was rented to 33 displaced businesses, and the entire project was completed five weeks after the earthquake. A partnership of three groups, The Downtown Association, the Santa Cruz Area Chamber of Commerce, and the Cultural Council of Santa Cruz County managed the project and leased the tent space.

The City's RDA participated in the long-term recovery of downtown by helping to bridge a revenue gap in the City's Parking District. The Parking District's financial mainstay had been a parking deficiency fee assessed on downtown tenants. To cope with the problem of decreased revenue and the need to fund on-going operating costs, the District increased the parking deficiency fee for remaining businesses. At the same time, the City imposed a requirement that all post-earthquake commercial buildings be constructed at a minimum of two stories in height. This situation created a conflict in that rents needed to cover the construction costs plus increased parking fees for second stories would not be competitive with alternative locations, thereby discouraging reconstruction. To resolve this obstacle, the RDA developed an innovative financing program whereby it agreed to pay the increased parking deficiency fee for second and third stories in all newly-constructed buildings for five years.

Downtown Santa Cruz is well on its way to a full recovery, due in part to the City's imaginative tent program and the RDA's innovative contribution of critical "gap" financing.

Sustainable Development

Sustainable development is an umbrella term for a range of public policies that have separately been proposed or implemented for several decades. The concept of sustainable development, in essence, is the use of resources such as land, water, energy, and building materials so that they can be renewed, or at least sustained with minimal environmental damage. The concept of sustainability brings together these separate policy efforts into one overarching theme, recognizing the synergism and inter-relationships between separate resource use decisions.

Examples of conceptual ways to achieve sustainable development abound. On a project-specific level, these include buildings constructed of recycled materials, heating and cooling systems using solar power, on-site organic gardening to produce foodstuffs, and use of natural drainage systems rather than engineered systems.

Some sustainable development policy proposals also incorporate the idea of sustainable communities, with social and economic structures that enrich the quality of life for all citizens. This broader view of sustainability includes concepts such as transit-oriented development (see below), inclusion of child care facilities in housing projects, employee-owned manufacturing facilities, and manufacturing or producing energy using recyclable materials, and economic development programs which "grow" local entrepreneurship skills.

As redevelopment practices evolve into the next century, the movement towards sustainable urban and rural development will likely become incorporated into RDA activities. Many RDAs function as public developers; in this role, RDAs will face increasing pressures to make their projects meet sustainability criteria.

Transit-Oriented Development

During the late 1980s and early 1990s, transit-oriented development concepts gained popularity as California sought to minimize traffic congestion and improve air quality. Transit-oriented development involves designing development projects which center around one or more forms of mass transit; these can include heavy and/or light rail stations, or even bus stops. These kinds of projects provide housing, retail, or office space (or a mix of uses) within walking distance of the transit station, so that residents and workers can conveniently use the transit system and reduce their reliance on automobiles.

In some cases, transit-oriented developments have been planned or built within redevelopment project areas, requiring cooperation between the transit agency and the RDA. An example of this approach is the Pleasant Hill BART station area, which involved a complex partnership between BART, the Pleasant Hill RDA, and the County. Cooperation can involve joint planning and implementation, land swaps (e.g., parking lots for redevelopment sites), joint land assembly, and even joint developer solicitation and negotiation. A new piece of

legislation, AB 3152, explicitly acknowledges an RDA role in the planning and development of "transit villages" in California, and permits satisfaction of affordable housing spending requirements on RDAs within transit villages that meet the definitions of the law.

As this form of development gains momentum, it is likely that RDA staff will need to become familiar with examples of successful projects and special forms of inter-agency cooperation.

Obsolete Industrial Areas

Redevelopment powers can be especially effective in cases where obsolete industrial areas can be reused for residential or office purposes. Many older industrial areas have prime urban amenities such as adjacency to downtowns, locations along rivers, the presence of historic buildings, or locations near freeway/railway right-of-ways. As the manufacturing base of California declines, cities are experiencing new forms of development well-suited to older industrial areas and the buildings within them. These new forms of development can include live/work units, historic office and retail complexes, and start-up business ventures such as the mix of redevelopment projects located in Emeryville and Hollywood.

Assisting transitional industrial areas to redevelop presents special challenges to RDAs. First, the newer forms of reuse are often unfamiliar to RDA staffs and decision-makers, making project proposals seem risky. Second, these transitional areas often suffer from poor circulation (especially in relation to railroad tracks), inadequate infrastructure, and toxic soil contamination. All of these problems, while typically associated with blighted areas, can be particularly difficult and expensive to resolve in industrial areas.

In future years, more RDAs will likely face the challenge of redeveloping obsolete industrial areas, and will need to become expert in subjects such as historic rehabilitation, toxic remediation, and market demand for new product types.

Underutilized Big Boxes

One trend that is already surfacing in some communities is the need to find new uses for recently constructed "big box" retail buildings. Retailers raced to saturate many California markets with these facilities during the 1980s, resulting in some markets becoming over-built with big boxes. As the marketplace evens out, retailers will fail or choose to close certain "boxes." To the extent that these closed boxes are located in redevelopment project areas, RDAs will face the challenge of a new kind of blight - very large windowless structures with high ceilings and large parking lots. The potential abandonment of these kinds of facilities also will mean declines in property values, affecting tax increment revenue flows.

In some cases, these buildings have been re-used by other large scale retailers, requiring little change in the physical facility. In other cases, it is likely that the buildings will require creative thought to find new uses that benefit the community. A precursor to this problem, found in the challenge presented by obsolete large manufacturing

buildings, has been solved by adaptive reuse as live/work studios (such as the Clock Tower in San Francisco and the Fourth Street Studios in Oakland) or as factory outlet malls (such as the Great Mall in Milpitas).

CHAPTER 10: FUTURE CHALLENGES FOR REDEVELOPMENT

The future of redevelopment in California will likely involve cycles of agency response to changes in economic activity or public policy, followed by legislative reform. The challenge for RDAs in California will be to maintain their long-term commitment to eliminating blight while facing changing fiscal and legal realities.

Redevelopment's Cycles of Interest and Reform

As discussed in Chapter 2 of this document, the history of redevelopment in California is peppered with cycles of interest and reform. During the 1950s, redevelopment focused primarily on slum clearance. In the 1960s, redevelopment interest shifted to downtown revitalization. In response to criticisms of redevelopment agencies' treatment of residents affected by the urban renewal projects, the Legislature enacted the housing reforms of the 1970s, which added the 20 percent tax increment set-aside requirements for low- and moderate-income housing. Housing development then became the focus of redevelopment in the 1970s.

In the 1980s redevelopment's focus shifted again, as local governments coping with the effects of Proposition 13 tapped their redevelopment powers to help fund public improvements. Because of concerns about "bare land projects" (i.e., located in project areas consisting primarily of vacant, unimproved land), the Legislature adopted reform legislation in the 1980s requiring that project areas be urbanized. As local revenues continued to decline in the late 1980s and early 1990s, however, redevelopment became one of the few viable economic development tools for local governments. Attracting large sales tax generators, especially retail, thus became the new focus of redevelopment. Again, this cycle of interest generated concerns regarding abuses of redevelopment powers. The reform movement that followed resulted in the enactment of AB 1290 in 1993.

Redevelopment's next focus of interest could very well be one of the five areas discussed in the previous chapter. On the other hand, it could be something completely different. Whatever that new focus will be, and in whatever form it will take, there will likely be reform efforts to follow. Chances are that AB 1290 will not be the last redevelopment reform legislation enacted by the Legislature. To survive the challenges that lie ahead, redevelopment agencies must strive to balance redevelopment's extraordinary powers with their ultimate goal of promoting and protecting the public interest. The recommended practices contained in this report are intended to assist redevelopment agencies achieve and maintain that balance.

Suggested Issues for Further Consideration

If reform efforts were to continue, the myths and realities of redevelopment practice should be further examined to shape legislation that aids the redevelopment process in California's communities. During the course of drafting

this report, the need for a more systematic evaluation of redevelopment's costs and benefits, as well as a need for a multi-disciplinary approach to improve redevelopment practices became evident. Suggestions for future evaluation and information dissemination include as follows:

- Evaluation of the full costs and benefits of redevelopment activities in different urban settings, including the opportunity costs of public investment and the direct/indirect benefits attributable to that investment;

- Decision-making tools for prioritizing redevelopment expenditures and tracking multi-year revenues and expenditures that can be replicated via computer software;

- Dissemination of successful examples of redevelopment practice (the nomination material from more than 60 projects and programs received during the course of this report's research could become several volumes of useful information for redevelopment practitioners);

- More in-depth training of multi-disciplinary professionals in the field of redevelopment at the college undergraduate and graduate level;

- Textbooks on many of the topics included in this report as chapters;

- Ways of better integrating redevelopment into strategic planning and budgeting procedures being followed by city and county governments;

- Continued communication to the public about redevelopment's fiscal impacts and special capabilities to improve the urban resident's quality of life.

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APPENDIX A: ILLUSTRATION OF DEBT CAPACITY ANALYSIS

SAMPLE TAX INCREMENT PROJECTION AND BONDING CAPACITY MODEL

The Sample Tax Increment Projection and Bonding Capacity Model included here as Table A provides an example of estimating future revenues and bonding capacity. Presentationally, there are many ways of portraying the analysis. None-the-less, this model contains the key components agencies should consider when estimating revenues for budgetary purposes.

We suggest estimating revenues in 5-year segments, updating the projections on an annual basis as current year information becomes available (typically in September of each fiscal year). In addition, the performance/accuracy of prior year projections should be reviewed to ensure that the assumptions being applied parallel historical performance. In reviewing historical performance, agencies should pay particular attention to inordinate movements in assessed valuation from year to year and/or unexplainable movements in the receipt of tax increment revenue.

Sample Tax Increment and Bonding Capacity Model

Figures 1, 2 and 3 break-out the tax increment and bonding capacity model into more easily digestible segments. Figure 1 shows an entire model broken down into components, while Figures 2 and 3 highlight the key assumptions that go into each component.

There are essentially three main components to the model: 1) Assessed Valuation; 2) Tax Increment and Offsets to Tax Increment; and 3) Bonding Capacity. Each component of the model is interrelated - valuation growth leads to revenue growth which in turn increases bonding capacity. Likewise, each component requires certain assumptions that can impact other components.

Component No. 1 is current and future year assessed valuation. In the first fiscal year of the projection (in this case, 1994-95), we have included project assessed value and incremental value. This information is obtained from reports offered by the County Auditor-Controller. We have bifurcated total project value between real property and other property so as to apply growth trends that reflect historical performance and the provisions of Article XIIIA of the California Constitution (which allows for 2.0% annual inflationary growth factor applied to real property values). In this section, we also allow for new development value that will be added to the tax rolls in future fiscal years and assessment appeals, which will decrease project value if they are adjudicated in favor of the appellant.

Component No. 1 - Key Assumptions

Real Property Trend
Other Property Trend
New Development Value Added
Impact of Assessment Appeals

Component No. 2 relates to tax increment revenue and offsets to tax increment revenue. Here, we have assumed a 1.0% tax rate applied against the incremental assessed value of the project. While each project may have override tax rates (tax rates levied in excess of the basic 1.0% tax rate), we have assumed there are none here. Agencies should check with their County Auditor-Controller to determine override levies and the rate of their annual decline if such rates are to be included in projections. We have also included unitary revenue as a separate line item. Because this type of revenue is not directly tied to project

growth, it is prudent to separate it and hold such amounts "flat" in future fiscal years.

Supplemental revenue is another component that deserves particular attention. Because supplemental revenue is the result of taxes paid on new developments and/or property reassessments occurring during an assessment year (i.e., after the March 1 lien date), they are best considered "one time" revenues. All to often, agencies base future revenues on historical performance and such performance may be distorted by supplemental revenue. Unless an agency has a strong and steady history of receiving supplemental revenue (and most agencies do not), we recommend omitting such revenues from projections.

There are multiple offsets to tax increment revenue that can impact an agency's net revenue amount. Each of these should be taken into consideration in the projection. The property tax collection fee is set by the County and each agency should know what this amount is. Delinquencies (assuming a non-Teeter Plan County) can be a major impact to net revenues. While agencies typically receive penalties and interest that can offset all or a portion of the impact of delinquencies, a review of historical receipts should suggest a trend and this too should be factored into the projection.

Assessment appeal refunds can be the most significant impact to net revenues. It is important to remember that, because of typical delays in processing assessment appeal applications at the County, refunds may total two or three years worth of "back taxes". Careful monitoring of appeals is therefore highly advised.

The last offsets, the housing set-aside and pass through agreement payments impact most agencies. The key recommendation here is to be familiar with the provisions of each pass through agreement. Many agreements have "steps" that either increase a taxing entity's percentage share received in future fiscal years or increase the required "flat" payment amount in the future. These should be factored into all revenue projections. Agencies should also be cognizant of the annual set-aside and balances accumulated from prior years. In addition, if the set-aside was deferred in prior years, agencies should be making up that deficit now or, at a minimum, have a realistic plan in place to address the deficit.

Component No 2 - Key Assumptions

Tax Rate
Unitary Revenue Growth
Supplemental Revenue
Property Tax Collection Fee
Property Tax Delinquencies
Assessment Appeal Refunds
Housing Set-Aside
Pass Through Agreements

Component No. 3 is the bonding capacity model. From the start, we should say that there is no substitute for the advice of a qualified financial advisor or underwriter and agencies seriously considering issuing bonds should contact such professionals. However, for internal planning purposes, agencies should be aware of the bonding capacity of their projects.

This model measures net available revenue that can be pledged to bond holders. This amount may be greater than revenues actually available because most agencies also pay administrative expenses from tax increment. In this case, it may be prudent to include a line item on the projection for administrative expenses and other costs that need to be funded from tax increment or cannot be funded from bond proceeds. It is important to

remember that dollars represented by the coverage factor are available for such on going costs.

From gross revenues, we have deducted the offsets to tax increment (though not administrative costs) discussed above. Note that we have excluded the housing set-aside, though this is not required if all or a portion of the proceeds of the financing are used for housing related purposes. In addition to the set-aside, we have deducted other contractual obligations of the agency, such as pass through payments.

Existing debt service and coverage are then subtracted from our net available revenue amount to come to Net Available Revenue for New Bonds. This amount equals the amount of tax increment that can be pledged to bond holders for debt service on new bonds. Agencies with existing bonded indebtedness should be aware of the parity bond test or additional bonds test in the indenture of the existing bonds.

From gross bond proceeds, agencies will be required to pay costs of issuance (including bond counsel fees, underwriter's discount and other miscellaneous fixed costs) and deposit to reserve the fund of the bonds. Again, a financial advisor or underwriter is useful in determining an estimate of what these amounts should be and what a reasonable estimate of interest rates should be.

Component No. 3 - Key Assumptions

Net Revenues
Existing Debt Service
Coverage Requirement
Interest Rates
Term of Financing
Costs of Issuance
Reserve Requirement

Conclusion

There is no standard or "best" way to estimate future tax increment revenue nor is there any means of guaranteeing a projections accuracy. Quite simply, too many external variables exist that can impact the assessed value of project area or the receipt of tax increment revenue by the agency. Accurate and timely tax increment projections require an agency to be aware of many factors over which they may or may not have control over. Therefore, the best that can be hoped for is a recognition of the variables that may impact revenues from year to year.

The value of a tax increment revenue projection, just like the value of a budget, lies with the thoughtful assumptions that go into the estimate. All of the highlighted assumptions noted above are based on and can made from information readily available from the County or from information obtainable through professionals in the consulting or financial services fields.

Prudence over optimism should be the motto for all revenue estimates. This can be achieved by being cognizant of the relationship between each assumption and the "bottom line" coupled with a conservative approach to all external factors

Figure 1

Sample Tax Increment and Bonding Capacity Model

Redevelopment Agency of the City of Happytown
Redevelopment Project No. 1

Tax Increment Projection & Bonding Capacity

There are essentially three main components to our sample tax increment and bonding capacity model: 1) Assessed Valuation; 2) Tax Increment and Offsets to Tax Increment; and 3) Bonding Capacity.

		1 1994-95	2 1995-96	3 1996-97
Real Property Value @	3.00%	309,721,001	319,012,631	329,597,725
Plus: New Development Value		0	1,950,160	8,752,652
Less: Assessment Appeals		0	965,000	2,311,000
Total Real Property Value		309,721,001	319,997,791	336,039,377
Other Property Value @	0.00%	48,302,346	48,302,346	48,302,346
New Development Value Added		0	0	375,000
Total Real Property Value		48,302,346	48,302,346	48,677,346
Total Project Value		358,023,347	368,300,137	384,716,723
Incremental Value Over Base Value		338,025,367	348,302,157	364,718,743
Tax Increment Revenue		3,380,254	3,483,022	3,647,187
Unitary Revenue		13,000	13,000	13,000
Supplemental Revenue		0	0	0
Gross Tax Increment Revenue		3,393,254	3,496,022	3,660,187
Less: Property Tax Collection Fee @	4.00%	13,000	13,520	14,061
Less: Property Tax Delinquencies @	1.50%	50,899	52,440	54,903
Less: Assessment Appeal Refunds		0	9,650	23,110
Less: Housing Set-Aside		678,651	699,204	732,037
Less: County Pass Through		557,742	574,699	601,786
Less: School District Pass Through		126,760	130,613	136,770
Less: Water District Pass Through		59,154	60,953	63,826
TOTAL NET TAX INCREMENT		1,907,048	1,954,942	2,033,695
Less: Existing Debt Service		350,784	351,294	348,852
Less: New Bond Debt Service		0	1,174,855	1,174,855
Combined Total Debt Service		350,784	1,526,149	1,523,707
Tax Increment Available for New Bonds		**1,556,264**	**428,794**	**509,988**
Less: Required Coverage @	1.25x	381,410	390,988	406,739
Net Available Tax Increment for New Bonds		**1,174,855**	**37,805**	**103,249**
Bonding Capacity		13,100,000	420,000	1,150,000
Data Entry---> Bonds Issued Y/N		Y	N	N
Gross Bond Proceeds		13,100,000	0	0
Less: Costs of Issuance @ 3.0%		393,000	0	0
Less: Deposit to Reserve Fund @ 10.0%		1,310,000	0	0
Net Available Bond Proceeds		11,397,000	0	0
TOTAL NET AVAILABLE TAX INCREMENT		1,556,264	428,794	509,988

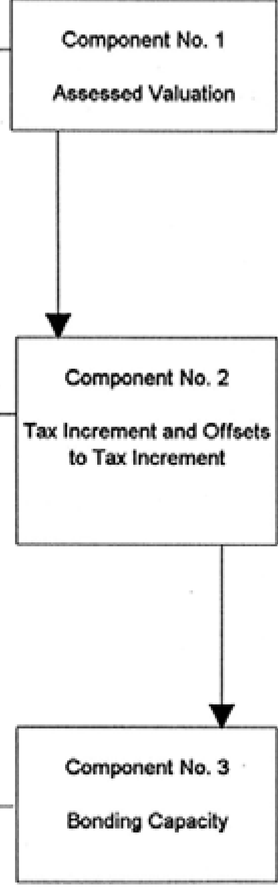

Figure 2

Major Components of Tax Increment Projections

Redevelopment Agency of the City of Happytown
Redevelopment Project No. 1

Tax Increment Projection & Bonding Capacity

		1 1994-95	2 1995-96	3 1996-97
Real Property Value @	3.00%	309,721,001	319,012,631	329,597,725
Plus: New Development Value		0	1,950,160	8,752,652
Less: Assessment Appeals		0	965,000	2,311,000
Total Real Property Value		309,721,001	319,997,791	336,039,377
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Tax Increment Revenue		3,380,254	3,483,022	3,647,187
Unitary Revenue		13,000	13,000	13,000
Supplemental Revenue		0	0	0
Gross Tax Increment Revenue		3,393,254	3,496,022	3,660,187
Less: Property Tax Collection Fee @		13,000	13,520	14,061
Less: Property Tax Delinquencies @	1.50%	50,899	52,440	54,903
Less: Assessment Appeal Refunds		0	9,650	23,110
Less: Housing Set-Aside		678,651	699,204	732,037
Less: County Pass Through		557,742	574,699	601,786
Less: School District Pass Through		126,760	130,613	136,770
Less: Water District Pass Through		59,154	60,953	63,826
TOTAL NET TAX INCREMENT		**1,907,048**	**1,954,942**	**2,033,695**

Caution should be taken to apply realistic trends to project assessed values. In this example, we have assumed a 3.% trend on real property values (land and improvements) and no trend on other property values (personal property and state assessed properties).

Unitary revenue can be a substantial source of revenue for the Agency. Because of its nature, it should be accounted for separately.

While most agencies receive supplemental revenue annually, it is typically prudent to exclude these revenues from projections due to their fluctuating nature.

The County property tax collection fee should be deducted from gross revenues. It should also be assumed that this amount will annually increase.

Pass through agreements are typically tied to assessed valuation/revenue growth and should therefore be linked to tax increment projections. Agencies should be familiar with the provisions of each agreement and cognizant of any "steps" that may increase future required payment amounts.

Assesed value expected to be added to the tax rolls as a result of new development activity in the project should be a key component in tax increment projections. It is important to remember that there is a delay between the time construction is completed and the value is added to the tax rolls.

In recent years, assessment appeals have become a greater concern and have had greater impacts to project area assessed values. It is important to adjust projections to take into account the impact of appeals.

Delinquencies and appeal refunds are often overlooked in estimating future revenues. Some recognition of these potential impacts should be accounted for.

The housing set-aside is usually deducted first though many agencies with expansive housing programs blend these dollars with general tax increment. Either practice is o.k. though agencies should take measures to ensure proper calculation, recordation and expenditure of the the set-aside.

Figure 3

Major Components of Bonding Capacity Analysis

		1 1994-95	2 1995-96	3 1996-97
Gross Tax Increment Revenue		3,393,254	3,496,022	3,660,187
Less: Property Tax Collection Fee @	4.00%	13,000	13,520	14,061
Less: Property Tax Delinquencies @	1.50%	50,899	52,440	54,903
Less: Assessment Appeal Refunds		0	9,650	23,110
Less: Housing Set-Aside		678,651	699,204	732,037
Less: County Pass Through		557,742	574,699	601,786
Less: School District Pass Through		126,760	130,613	136,770
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Less: Required Coverage @	1.25x	381,410	390,988	406,739
Net Available Tax Increment for New Bonds		**1,174,855**	**37,805**	**103,249**
Bonding Capacity		13,100,000	420,000	1,150,000
Data Entry---> Bonds Issued Y/N		Y	N	N
Gross Bond Proceeds		13,100,000	0	0
Less: Costs of Issuance @ 3.0%		393,000	0	0
Less: Deposit to Reserve Fund @ 10.0%		1,310,000	0	0
Net Available Bond Proceeds		11,397,000	0	0
TOTAL NET AVAILABLE TAX INCREMENT		1,556,264	428,794	509,988

Net Tax Increment available for all debts of the Agency.

Net Tax Increment available after existing debt service.

Coverage is a "cushion" offered to bond holders; it is typically equal to 1.25x annual revenues. This amount is then "taken off the top" of available revenues.

Bonding capacity is essentially the future value of a revenue stream, discounted for interest costs, over a specified period of time.

In determining net bond proceeds made available from a financing, costs of issuance and deposit to the debt service reserve fund "come off the top".

Once new bonds have been issued, the Agency has an additional obligation. Typically, this indebtedness has legal precedence over all other debts.

Note that, for illustrative purposes, Net Available Tax Increment and New Bond Debt Service are the same. In sizing bonds and attendent debt service, it is not necessarily prudent to bond to capacity.

Level Debt Service is calculated as follows:

$$\frac{(\text{Principal}) \times (i/2) \times (1+i/2)^n}{(1+i/2)^n - 1}$$

Bonding Capacity is calculated as follows:

$$\frac{(\text{Level Debt Service}) [(1+i/2)^n - 1]}{i/2\,(1+i/2)^n}$$

i = annual interest rate
n = number of payments

Table A

Redevelopment Agency of the City of Happytown
Redevelopment Project No. 1

Tax Increment Projection & Bonding Capacity

		1 1994-95	2 1995-96	3 1996-97	4 1997-98	5 1998-99
Real Property Value @	3.00%	309,721,001	319,012,631	329,597,725	346,120,558	357,640,394
Plus: New Development Value		0	1,950,160	8,752,652	1,103,125	0
Less: Assessment Appeals		0	965,000	2,311,000	0	0
Total Real Property Value		309,721,001	319,997,791	336,039,377	347,223,683	357,640,394
Other Property Value @	0.00%	48,302,346	48,302,346	48,302,346	48,677,346	50,422,346
New Development Value Added		0	0	375,000	1,745,000	153,000
Total Real Property Value		48,302,346	48,302,346	48,677,346	50,422,346	50,575,346
Total Project Value		358,023,347	368,300,137	384,716,723	397,646,029	408,215,740
Incremental Value Over Base Value		338,025,367	348,302,157	364,718,743	377,648,049	388,217,760
Tax Increment Revenue		3,380,254	3,483,022	3,647,187	3,776,480	3,882,178
Unitary Revenue		13,000	13,000	13,000	13,000	13,000
Supplemental Revenue		0	0	0	0	0
Gross Tax Increment Revenue		3,393,254	3,496,022	3,660,187	3,789,480	3,895,178
Less: Property Tax Collection Fee @	4.00%	13,000	13,520	14,061	14,623	15,208
Less: Property Tax Delinquencies @	1.50%	50,899	52,440	54,903	56,842	58,428
Less: Assessment Appeal Refunds		0	9,650	23,110	0	0
Less: Housing Set-Aside		678,651	699,204	732,037	757,896	779,036
Less: County Pass Through		557,742	574,699	601,786	623,119	640,559
Less: School District Pass Through		126,760	130,613	136,770	141,618	145,582
Less: Water District Pass Through		59,154	60,953	63,826	66,088	67,938
TOTAL NET TAX INCREMENT		**1,907,048**	**1,954,942**	**2,033,695**	**2,129,293**	**2,188,427**
Less: Existing Debt Service		350,784	351,294	348,852	350,785	351,222
Less: New Bond Debt Service		0	1,174,855	1,174,855	1,174,855	1,174,855
Combined Total Debt Service		350,784	1,526,149	1,523,707	1,525,640	1,526,077
Tax Increment Available for New Bonds		**1,556,264**	**428,794**	**509,988**	**603,654**	**662,351**
Less: Required Coverage @	1.25x	381,410	390,988	406,739	425,859	437,685
Net Available Tax Increment for New Bonds		**1,174,855**	**37,805**	**103,249**	**177,795**	**224,665**
Bonding Capacity		13,100,000	420,000	1,150,000	1,980,000	2,500,000
Data Entry---> Bonds Issued Y/N		Y	N	N	N	N
Gross Bond Proceeds		13,100,000	0	0	0	0
Less: Costs of Issuance @ 3.0%		393,000	0	0	0	0
Less: Deposit to Reserve Fund @ 10.0%		1,310,000	0	0	0	0
Net Available Bond Proceeds		11,397,000	0	0	0	0
TOTAL NET AVAILABLE TAX INCREMENT		**1,556,264**	**428,794**	**509,988**	**603,654**	**662,351**

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APPENDIX D: CASE STUDY CONTRIBUTORS

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2. Claremont Redevelopment Agency
3. Commerce Community Development Commission
4. Contra Costa County Redevelopment Agency
5. Culver City Redevelopment Agency
6. Healdsburg Redevelopment Agency
7. Lancaster Redevelopment Agency
8. Long Beach Redevelopment Agency
9. Community Redevelopment Agency of the City of Los Angeles
10. Milpitas Redevelopment Agency
11. Montclair Redevelopment Agency
12. Montebello Community Redevelopment Agency
13. Ontario Redevelopment Agency
14. Palm Desert Redevelopment Agency
15. Pomona Redevelopment Agency
16. Sacramento Housing and Redevelopment Authority
17. Redevelopment Agency of the City of San Diego
18. San Francisco Redevelopment Agency
19. Santa Clarita Redevelopment Agency
20. Santa Cruz Redevelopment Agency
21. City of Vista
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