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INTRODUCTION

THE PROJECT

This report was developed by UCLA urban planning graduate students along with labor and community leaders who were participants in the department's Community Scholars Program. It is the result of an academic year's worth of research and discussion with local and national organizations concerned about the proliferation of large public subsidies to private companies by cities. We are particularly concerned about the weak or absent accountability and evaluation attached to public subsidies provided to promote new jobs and improved community services.

This report focuses on the role of redevelopment in California as the major vehicle of public subsidy for private development. Investigation of redevelopment in California led us to Proposition 13. This measure is responsible for the enormous growth of redevelopment agencies, this 1978 ballot initiative that restructured property tax rates and redistribution in the state. Proposition 13 placed economic pressure on cash-strapped cities to recapture lost property tax revenues through redevelopment's powers of tax increment financing. As cities began to re-examine the revenue-enhancing potential of their redevelopment agencies, they also began to focus on development projects that could generate other tax revenues, particularly sales tax, to raise municipal budgets.

THE IMPACT OF PROPOSITION 13

After Proposition 13 passed by popular initiative in 1978, property tax revenues statewide declined an average of 57 percent.[1] Local jurisdictions and counties in particular experienced a significant loss of funds. The reasons were multiple:

1. Property owned in 1978 reverted to a 1975 assessment value[2];
2. Increases in annual assessments were limited to two percent until a sale occurred[3];

[1] Arthur O'Sullivan, et al., 1993, p.1
[2] The "base year" assessment value for all properties bought or constructed after 1978 is their market-value at the time of purchase or construction.
[3] Improvements on a property assume their own "base" assessment year which means that one property can have multiple "base" year assessments.

3. The maximum property tax was limited to one percent. Prior to passage, each local jurisdiction could set the property tax rates according to need. The average property tax rate had been 2.56 percent;
4. Proposition 13 moved authority for revenue disbursement from the local jurisdictions to the State; and,
5. Compounding this problem was the passage in 1979 of AB8, which permanently froze the percentage of county property tax allocations to cities at pre-Proposition 13 levels. An example of this unevenness is Los Angeles property tax rate of 32.7 percent compared to Beverly Hills with 19.5 percent. These percentages are called "AB8 shares."

Other details associated with Proposition 13 that contributed to the precipitous drop in property tax revenue appeared over time. They include the following:

1. Proposition 13 exempts from reappraisal a property holder's principal residence when transferred between parents and children. The property would otherwise revert to a market value assessment[4];
2. Proposition 13 allows persons aged 55 or older to transfer the assessed value of their principal residence to a new principal residence as long as the purchase or construction of the new residence occurs within two years of the sale of the first home[5]; and,
3. If property owned by a legal entity such as a corporation or partnership is transferred for reasons of corporate reorganization or when the percentage of ownership transferred is 50 percent or less, then the property is exempt from reappraisal. Only when the controlling ownership by the legal entity itself changes hands does the Legislature deem a sale to have occurred and reassessment to market value to be valid.[6]

The net result to California cities:

1. *A drop in state and local revenues:* In 1993, after adjusting for inflation, per capita levels of state and local revenues were 90 percent of pre-Proposition 13 levels[7];
2. *A proliferation of new and increased fees:* Cities have attempted to recoup the loss of property tax revenue by generating other forms of revenue such as sales tax and user fees; these make up approximately 50 percent of all city revenue sources statewide[8]; and,
3. *A proliferation of redevelopment agencies:* As discussed below, redevelopment agencies give municipalities the power to recapture some property tax and raise additional funds.

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[4] http://www.lao.ca.gov/tax_expenditure_299/tep_proptax1.html.
[5] *Ibid.*
[6] *Ibid.*
[7] *Ibid.*
[8] http://ww.lao.ca.gov/cf96c.html, Legislative Analyst's Office, *Cal Facts 1996, Part III: State and Local Finance*.

The changes that cities faced resulted in the proliferation of redevelopment agencies (RDAs). The number of RDAs leaped from 46 in 1965, twenty years after cities were given to power to create RDAs, to 351 in 1998.[9] Off the record, RDAs and other city officials will admit that the proliferation of RDAs had everything to do with Proposition 13; over half of California's RDAs were created after 1978.[10] Faced with effectively losing one of their biggest revenue sources (i.e., property taxes), California cities had to create innovative strategies and use old programs for new purposes. Redevelopment was no longer only a tool to address blight but also became a strategy to raise revenues.

REDEVELOPMENT AND MUNICIPAL FINANCE

How Redevelopment Works

RDAs have special powers above and beyond other city agencies. Within designated project areas, RDAs can:

- Collect property tax increment within redevelopment project areas;
- Use eminent domain to condemn land for private use; and,
- Incur bonded indebtedness without public approval.

RDAs can declare any part of town as a "project area" if it finds "blight." The California Health and Safety Code § 33001 categorizes blight as either physical or economic. Physical blight can be defined as:

- Unsafe or unhealthy buildings;
- Buildings with substandard design or inadequate parking;
- Adjacent incompatible uses; and,
- Irregular shaped lots or lots with multiple owners.

Economic blight can be defined as:

- Declining or stagnating property values;
- High vacancies, low lease rates, high turnover rates, or excessive vacant lots within an urban area;
- A lack of necessary commercial facilities; and,
- Residential overcrowding, an excess of businesses that cater exclusively to adults, or a high crime rate.

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[9] The California Community Redevelopment Act of 1945.
[10] *Ibid.*

Once a city establishes a project area, its RDA uses the powers described above to assemble land and attract real estate developers. RDAs will often sweeten the pot for developers by giving them some combination of subsidies, such as free infrastructure construction, land at below-market price, loans at below market rate, and waiver of fees. In these ways, RDAs attempt to help distressed neighborhoods by subsidizing new real estate development.

Tax Increment Financing

Tax Increment Financing (TIF) is the engine of redevelopment. TIF gives RDAs the power to collect and use a percentage of property taxes that would otherwise go to cities, counties, schools, and special districts. TIF is the primary method that RDAs use to fund their projects. Anticipating future TIF funds, RDAs issue bonds to pay for their projects.

When a city establishes an area as a redevelopment project area, they calculate the total assessed value of all the properties within the area. Any increase in property taxes due to an increase in property values above this initial assessed value (and above a 2 percent annual inflation rate) goes to the RDA. In theory, as RDA projects improve an area and property values rise, the RDA can then claim the increase in property tax.[11] TIF provides cities with a way to capture property taxes that have been reduced since Proposition 13 and has become an incentive for cities to designate as much acreage a "project area" as possible.

Sales and Transient Occupancy Taxes

After the passage of Proposition 13, cities looked to diversify their income base. After losing property taxes, other sources of funding—including user fees and sales tax—became more important. RDAs help cities raise these alternative funds, particularly sales tax and transient occupancy tax (TOT—a tax on the use of hotel rooms) by developing new hotels and retail projects.

[11] From this increment, State Law requires that agencies set aside 20 percent for low- and moderate-income housing.

REDEVELOPMENT AND COMMUNITY ECONOMIC DEVELOPMENT

The generation of sales tax was not the original goal of redevelopment. RDAs were intended to take "bad" neighborhoods—neighborhoods with empty lots, rundown buildings, high crime, and declining property values—and "revitalize" them by attracting new business investments and by improving the infrastructure and built environment of the neighborhood. While redevelopment still serves this purpose, it has become an important tool to help cities stay afloat in the wake of Proposition 13. In present-day California, redevelopment has two missions: (1) the official—to remove urban "blight" and (2) the unofficial—to raise funds for cities.

This paper argues that these two missions often contradict each other. Employing redevelopment as a municipal fundraising instrument can undercut the original intent of redevelopment. This contradiction cannot be resolved until Californians confront the aftermath of Proposition 13 and adopt a more sane and sustainable form of municipal finance. Secondly, redevelopment, as conceived in the forties, relied upon problematic assumptions about the roots and solutions to urban problems. Therefore, even if redevelopment were no longer used as a fundraising tool, it would still need further reform in order to address the problems of people who live in low-income neighborhoods.

Contradictions in RDA Practices

Using redevelopment to contribute to municipal coffers contradicts redevelopment's original goal of alleviating urban poverty. The two characteristics of redevelopment practices that conflict with redevelopment follow.

First, looking to create project areas only to reclaim property taxes skews the mission of redevelopment. Many redevelopment project areas are in neighborhoods that are blighted on paper but in reality are well off. While these project areas may comply with the letter of the law, they are not intended to address urban problems. For example, in one of Burbank's project areas, one the major activity of the agency has been to enhance freeway access. Long Beach created project areas out of an under-performing shopping mall in a middle-class, suburban part of town and of the commercial district in one of its richest neighborhoods only some storefronts were vacant. This dynamic illustrates the conflicting priorities of redevelopment in California. Many cities with RDAs do not have poor neighborhoods and will never have them.[12] In cities which actually have urban poverty, RDAs are more likely to spend money in areas where property values will rise quickly (and increase tax increment, giving the agency a better return on investment) than in areas where problems are more serious and conditions are less likely to change overnight. In this way, redevelopment shifts agency attention and resources away from the poorest neighborhoods to areas need it most to areas that may be under-performing or undervalued yet are easily marketable to developers.

Second, prioritizing retail and hotel projects (to raise sales tax and TOT) increases the numbers of urban working poor. Restaurants, stores, and hotels generally provide low-wage jobs with no benefits and little chance for career advancement. The majority of low-income adults—the people who live in California's truly blighted neighborhoods—already have these types of jobs. They work hard for employers who do not pay enough to raise a full-time worker above the poverty line.[13] Thus, more hotels and more retail establishments do not give city residents new and better jobs. Instead, more low-wage jobs attract more low-wage workers. By using public funds to lure these types of employers to their cities, RDAs add to the numbers of working poor, in turn increasing demand for social and municipal services and low-cost housing. In this way, RDAs ironically exacerbate pressures that create and expand blighted neighborhoods.

Real Estate Versus People

This paper argues that economic development strategies should be people-based. When governments assess urban problems and measure successes of economic development programs, they should use a metric relevant to people's lives. Redevelopment, as it exists now, measures the world through property values. Community-based development would

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[12] For example, the City of Indian Wells, with a median household income of $210,000, has two separate redevelopment areas.

[13] Full-time (40 hrs./week, 52 weeks/yr.) even at $6/hr. is, pre-tax, $12,480. The 1997 US Census Poverty Threshold for a family of three is $12,802.

value people's quality of life. The table below summarizes the differences between our vision of community-based economic development and redevelopment as currently constituted:

Redevelopment	Community Economic Development
Real estate-based: purpose is to generate higher and better uses of property	People-based: purpose is to create a better quality of life for those who need it
Trickle-down benefit to working class people	Direct benefit to working class people
Relieves "blight"	Alleviates poverty
Addresses physical blight with subsidized development	Addresses poverty with job creation, living wages, affordable housing, education, social services, etc.
Engine of redevelopment is property tax increment i.e., driven by increasing property values in redevelopment areas	Engine of community economic development is power and redistribution of wealth to the poor
Economic beneficiaries are large developers and commercial property owners	Economic beneficiaries are people who have limited power and resources (low-income tenants, workers, and youth)

Table 1: Redevelopment Versus Community Economic Development

This paper does not argue that redevelopment should be disbanded.[14] Redevelopment is needed in many communities that really do have blight. Redevelopment can also be useful as a proactive government response to these problems. For example, in one case study, Compton's RDA developed a number of community-based projects (a proposed park, a transit center with a community computer lab, and a child-care center). Projects like those in Compton, however, represent only a small percentage of total statewide RDA investments. Redevelopment needs reform in order to become more closely aligned with the values and strategies of community-based economic development.

OUR FOUR CITIES

Of the eighty-eight cities in Los Angeles County, seventy-three have redevelopment agencies. This study selected four cities to begin to investigate post-Proposition 13 redevelopment practices: Burbank, Compton, Lancaster, Long Beach. The cities selected represent unique geographies and histories, economic assets and liabilities, demographics, and redevelopment strategies. The following charts provide a comparative

[14] For an example of a paper which argues that "the ultimate goal… must be to disband the redevelopment agencies and return property taxes to schools, counties and cities," see Norby, 1998.

overview of some important characteristics of the four cities. They should be a helpful prelude to a discussion of their unique redevelopment experiences.

BURBANK, COMPTON, LANCASTER, and LONG BEACH[15]

CITY STATISTICS

City	Year Incorporated	Population	Median Income 1989	% Children in Poverty 1990
Burbank	1911	96,643 (1995)	$45,169	12.7%
Compton	1888	90,454 (1990)	$31,367	38.6%
Lancaster	1977	127,136 (1998)	$48,220	15.3%
Long Beach	1897	422,220 (1998)	$40,118	28.1%

CITY FISCAL STRUCTURE

City	Per Capita Sales Tax 1975-1976	Per Capita Sales Tax 1995-1996	Per Capita Property Tax 1975-1976	Per Capita Property Tax 1995-1996
Burbank	$99	$159	$167	$129
Compton	$48	$44	$71	$111
Lancaster	N/A	$78	N/A	$21
Long Beach	$76	$73	$172	$125

CITY DEMOGRAPHIC COMPOSITION

City	White	Hispanic	Asian	African American	Other
Burbank	68%	23%	6%	2%	1%
Compton	1.5%	43.7%	1.7%	52.7%	.4%
Lancaster	73.1%	15.2%	—	7.2%	4.7%
Long Beach	49.5%	23.6%	12.9%	13.3%	.7%

[15] Unless otherwise noted, all dollars in this report have been converted to 1998 dollars using the Department of Commerce Bureau of Economic Analysis GDP Price Deflators.

REDEVELOPMENT STATISTICS

City	Agency Established	% of Value of All City Assessed Properties	Number of Project Areas	Total Acres	% of City Land in Redevelopment
Burbank	1970	19%	4	1,908	17%
Compton	1967	32%	1	2,635	40%
Lancaster	1979	46%	7	27,702	49%
Long Beach	1961	15%	8	17,153	54%

City	Redevelopment Expenditures 1995-1996	City Expenditures 1995-1996	Per Capita Increment Assessed Value	Per Capita Indebtedness 1995-1996
Burbank	$36,574,543	$269,560,229	$4,363	$7,278
Compton	$11,016,445	$73,272,605	$7,965	$4,272
Lancaster	$93,038,820	$48,756,374	$6,162	$9,198
Long Beach	$16,924,606*	$1,031,330,096	$3,333	$1,374*

Data Source: 1990 US Census; California Office of the State Controller. Annual Report of Financial Transactions Concerning Cities 1975-1976; California Office of the State Controller. Annual Report of Financial Transactions Concerning Cities 1995-1996; California Office of the State Controller. Annual Report of Financial Transactions Concerning Redevelopment Agencies 1995-1996. California Office of the State Controller. Annual Report of Financial Transactions Concerning Redevelopment Agencies 1996-1997.

* Data is from 1996-1997.

Burbank: Rebuilding a City for Business

INTRODUCTION

For at least the last thirty years, Burbank has sought to become, through its redevelopment agency, a business-friendly city, setting as its goal the "maximization of resources for present and future businesses."[16] Burbank established its redevelopment agency in 1970 in order to acquire the tools of redevelopment, which it believed would allow it to remain the industrial center of the San Fernando Valley.[17] While the concentration of industry in Burbank was about twice that of other cities its size, it felt that the health of industry would be threatened without a means for businesses to expand and modernize, tasks that had become increasingly difficult. Since that time, though the businesses have changed, with commercial and retail businesses—which generate greater tax revenue—supplanting many of the industrial businesses in the city, almost thirty years later Burbank is still building a city for business.

CITY SNAPSHOT

The city of Burbank, which incorporated in 1911, lies just north of Los Angeles in the San Fernando Valley. Once the butt of Johnny Carson jokes for being a sleepy place with little going on, Burbank has transformed itself from an industrial blue-collar community to a white-collar city of almost 100,000, a destination point for people in the LA region.

In the 1960s and 1970s, Burbank was home to numerous industrial firms—400 of them in 1970—including Lockheed, the aerospace giant, which employed 40,000 workers at its peak. Although Warner Bros. had called Burbank home since 1929 and Walt Disney Studios since 1937, these were just two of the many businesses located in what was then a largely industrial city. As the economy began to change in the late 1980s and early 1990s, Burbank found itself in a difficult situation, with factories closing their doors in unprecedented numbers. The departure of Lockheed, which announced in 1990 that it was transferring operations to Palmdale and Georgia and taking with it approximately

[16] http://www.burbankca.org/redevagcy.html.
[17] City Manager Baker to Burbank City Council, 16 March 1970.

14,000 well-paying jobs,[18] represented Burbank's biggest blow and left the city with three to four million square feet of vacant land.[19] As the industrial base continued to deteriorate, the growing and expanding media industry stepped in to fill the void created by Lockheed and other industrial businesses, and assumed a central role in Burbank's economic life.

As the economic character of the city shifted, so did the tax base. In Fiscal Year (FY) 1975-1976, before Proposition 13, sales tax in Burbank accounted for 12 percent of total revenue, while property tax accounted for 20 percent. By FY 1995-1996, both these taxes made up a lesser share of Burbank's overall revenues; sales tax accounted for just 6 percent and property taxes just 5 percent. Conversely, transient occupancy tax (TOT), which made up only two-tenths of one percent of the city's revenues in FY 1975-1976, rose to almost 4 percent by FY 1995-1996, and the utility tax, which did not even exist in 1976, accounted for over 7 percent of Burbank's revenues in 1996. Also in FY 1995-1996, Burbank was among the highest-earning LA County cities in terms of TOT and utility taxes, surpassed only by Pasadena, Long Beach, Santa Monica, Torrance, and Los Angeles (and West Hollywood, in the case of TOT).

But despite the rise in the transient occupancy and utility taxes, all taxes as a portion of the city's budget shrank dramatically in the twenty-year period after 1975-76, from 43 percent of total revenues to 22 percent. In the years after Proposition 13, Burbank, like other cities, was forced to look to sources of revenue other than taxes to keep the city operating.

Burbank's economic survival was aided by the growth in the media industry; by 1996, for every one job Lockheed took away, the entertainment industry created two new ones.[20] Were it not for this, Burbank might have an unfavorable employment-to-population ratio instead of the 1:1 ratio (one job for every resident) in which it takes great pride, [21] and

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[18] Gary Holt, of the International Association of Machinists, estimated that the average Lockheed machinist's salary was $40,000 a year.
[19] LA Times Staff Writers, *LA Time* 10 May 1990: "Job Cuts Infuriate Lockheed Workers."
[20] http://www.cnn.com.
[21] http://www.burbankca.org/statsLbr.html.

many plots of vacant land. Currently, the media industry accounts for more than 20 percent of Burbank's jobs, about 10 percent of which can be attributed to Walt Disney, Warner Bros., and NBC alone;[22] Burbank's population of almost 100,000 is comprised mainly of European and Eastern European Americans (many of whom are Armenian immigrants). This group accounts for 68 percent of the total population, followed by Hispanics at 23 percent, Asian Americans at 6 percent, and African Americans and others at 3 percent. As of 1995, Burbank boasted a median income of $42,597 and a fairly low percentage of children in poverty, at just under 13 percent.[23]

The extent to which Burbank's recovery can be attributed to any one factor—media industry expansion, strategic business decisions of the Redevelopment Agency, or just plain luck—is debatable. Each probably played a role. But without question, Burbank looked to business development to save itself, and current leaders have not been shy about confessing to the "schmoozing"[24] they have at times entered into as a result. Marketing literature proclaims that Burbank is "Open for Business"[25] and outlines a generous incentive program of tax breaks and subsidies, both of which the Redevelopment Agency has put to frequent use in the last ten years.

BURBANK REDEVELOPMENT AGENCY: REDEVELOPMENT AS REVENUE-GENERATOR

The Burbank Redevelopment Agency, established in 1970, designated its first redevelopment project area, Golden State, in the same year. Since that time, the Agency has established three additional project areas, and unless new project areas are added, redevelopment in Burbank will cease to exist after 2027. By that time, however, three of the four project areas will have enjoyed a lifespan of fifty years—and the tax increment that goes with it. In addition to revenue-producing projects, however, the redevelopment agency, like any other, is required to set aside 20 percent of tax increment for low- and

[22] *Ibid*.
[23] These figures are from the 1990 US Census.
[24] Bob Tague, Community Development Director, interview, 1 March 1999.
[25] Burbank marketing brochure.

moderate-income housing. In the last three fiscal years this spending has averaged over $388,000.[26] Table 2 provides more information on Burbank's four project areas.

Project Area	Year Established	Projected End Date	Area (Acres)	Use
City Centre	1971	2021	212	Retail/Commercial: Media Center Mall; Ikea; Virgin Megastore; Barnes & Noble; AMC Theaters; Police/Fire facilities
Golden State	1970	2020	1100	Industrial/Commercial: Airport Hilton; Frys, Media Studios North
West Olive	1976	2026	120	Commercial: Studio expansion; infrastructure improvements
South San Fernando	1997	2027	468	Newly established; slated for the recycling of industrial properties

Table 2: Burbank Redevelopment Areas

Over almost thirty years, the agency has seen its role evolve from dealing with issues of physical blight to its current strategy of addressing "economic blight,"[27] often recycling formerly industrial sites into mixed-use projects. This is according to Bob Tague, Director of the Community Development Department, of which the Redevelopment Agency is a part. This change in the notion of blight has been accompanied by a change in the ultimate purpose of redevelopment. To paraphrase Bud Ovrom, Burbank City Manager, redevelopment has largely become a tool for raising sales taxes, which then go to pay for city services. If the purpose of redevelopment were to create high paying jobs, the city's redevelopment agency would create high paying jobs. But, from his view, the reality of the local fiscal situation dictates that redevelopment is about raising revenue.[28]

This need to raise revenue by capturing sales taxes has manifest itself in the development of large retail projects like the Haagen Media Center Mall and the downtown City Centre area that surrounds it. The proliferation of retail establishments—and hence the generation of sales tax revenues—in fact, could be one factor that saved Burbank in the wake of the Lockheed departure.[29] With stores such as Ikea, Frys, Circuit City, Office Depot, and Virgin Megastore, to name just a few, Burbank saw its sales taxes increase

[26] Burbank Redevelopment Agency, *Burbank Redevelopment Agency Residential Rehabilitation Program FY 1995-1996, 1996-1997, and 1997-1998*.
[27] Tague.
[28] Bud Ovrom, Burbank City Manager, interview, 4 March 1999.

3,000 percent between 1991 and 1997.[30] One contributing factor to this might be that stores like Ikea and Frys, both subsidized by the agency, have regional markets, making Burbank one of only several cities in the area that can boast of their presence. The success of both has greatly exceeded almost everyone's expectations, and Frys repaid its $3 million subsidy in the amount of sales tax it generated in *only two years*.[31]

With regard to the critical nature of sales tax to Burbank, Tague echoed Ovrom's view of it, stating that it is "what we live off of."[32] He went on to explain that its increase during the 1990s allowed the City of Burbank to avoid layoffs of city employees while maintaining funding for programs such as Job Training Partnership Act (JTPA) (supplementing cuts in federal funding with local funds), parks and recreation, and other social services. Another program area that benefited greatly from Burbank's substantial sales tax revenue stream was the Burbank Unified School District. Between 1993 and 1997, the city/redevelopment agency granted the district over $31 million in one-time assistance (earmarked for capital improvements).

In recent years, Burbank has achieved the enviable position of reducing its need to award subsidies, due to the sales tax base it knows it can rely upon. As way of illustration, a current mixed-use, subsidy-free project downtown received bids from twelve of the biggest developers in Southern California, prompting Tague to comment: "The developer community is lined up outside our front door."[33] But the city does not get everything it wants; sometimes elements are beyond its control. For example, when the city was interested in Nordstrom for an anchor tenant in the Media Center Mall, corporate policy of Nordstrom made this impossible due to the proximity of its existing store in neighboring Glendale. But barring a similar scenario, the city hopes to still bring in an auto mall and some other downtown specialty stores that would increase foot traffic—and would grant a subsidy to make either of these a reality, per Ovrom.

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[29] *Ibid*.
[30] Tague.
[31] *Ibid*.
[32] *Ibid*.
[33] *Ibid*.

The potential influence that the RDA is able to have on the economic situation of the city is revealed in the size of its budget, debt, and the quantity of land in its domain. See Appendix A for a map. In the 1990s, redevelopment expenditures have averaged just over $41 million a year,[34] with the Golden State Project Area leading in total expenditures, followed closely by City Centre, and West Olive lagging far behind. Land in redevelopment comprises 17% of total city acres and 19% of the total assessed properties in the city.[35] And total agency debt as of FY 1995-1996 stood at over $724 million dollars. Given this magnitude, it is crucial to examine the nature of redevelopment in the city further in order to see who really benefits from it. The Hilton Burbank Airport and Convention Center will serve as a case study for examining this question.

CASE STUDY: THE HILTON BURBANK AIRPORT AND CONVENTION CENTER

The Hilton is not only an illustration of Burbank's larger strategy of using redevelopment to generate revenue, but also the realization of a goal dating back to 1970 for a convention center in the city.[36] For these reasons, along with the fact that it was a controversial project, the Hilton was chosen for a case study.

The 50,000 square foot Hilton Hotel and Convention Center, located in the Golden State Project Area, was originally built in 1982. In 1988, the City entered into an agreement with developer Lewis Wolff of Burbank Partners to expand the number of rooms from 266 to a total of 486, and to build a convention center. At the developer's request, the original plan was amended the following year to increase the size of the convention center by 12,000 square feet—from 28,000 to 40,000—and to add 230 more parking spaces; the added square footage necessitated the acquisition of additional land. Both the

[34] This excludes 1995, for which data was unavailable.
[35] Total assessed properties total $8.7 billion; those in redevelopment total $2.0 billion.

city and the developer viewed the deal as a win-win situation—the city would get a desperately wanted convention center and the developer would expand the hotel. The other two major hotels in Burbank at the time were (and still are today) the Holiday Inn in the downtown area and the Ramada, also in the Golden State Area. From the city's perspective, the benefit of the deal was its tax-generating capacity, both in terms of bed tax and property tax. While the city as an entity had an economic interest in the tax benefits of the deal, there seems to have been little discussion of any economic benefits that might accrue to the non-unionized hotel workers or the community at-large. When the project was up for approval before the City Council, only one person dissented, then-mayor Al Dossin, saying: "It was a great project, but not at taxpayer's expense."[37]

The terms on which the deal was based are extremely complex, necessitating an agreement almost 100 pages in length, not including several lengthy amendments. The subsidy is outlined in Table 3.

Land acquisition	$9,873,132
Land site clearance and public improvements	$2,135,259
Total RDA Land Costs	*$12,008,391*
Effective Sale Price to Burbank Partners	($9,873,132)
Total Land Write-Down	$2,135,259
Interest payments on loan[38]	$2,610,940
TOTAL SUBSIDY	**$4,746,199**

Table 3: Burbank Airport Hilton Hotel & Convention Center Subsidy (Based on the complexity of the deal, this is a best estimate cost summary based on available information.)

[36] City of Burbank City Council Report, 16 March 1970.
[37] Vivien Lou Chen, *LA Times* 6 March 1995: "Hotel Developer Could Void Loan Repayment."
[38] A loan was granted to the developer for up to $6 million over ten years to fund operating losses, including a built-in 12 percent profit; payback for the loans would begin only when the hotel achieved a profitability of $10 million and average occupancy of 65 percent in any one-year period. The loans would be cash loans of a value no less than the combination of bed and property tax increment. The agency would be responsible for payment of interest on the loan (at 8 percent). This figure was estimated based on a yearly cost to the city of $250,000, per an *LA Times* article in 1995, the dollars of which were inflated or deflated accordingly and all normalized for 1998.

The overall costs of the project were estimated at $20 million, the bulk fronted by the city (i.e., the land plus improvements, followed thereafter by the available loan). Over the last two years the project has generated a combined bed and property tax of over $2.5 million.

The Hilton Hotel today is a three-star hotel with the eighth largest convention center in LA County. There are 403 standard rooms and 83 suites, and the average room rate is $139. It employs between 150-200 full-time employees, fifty part-time employees, and fifty on-call employees. While full-time employees receive benefits such as health, life, and dental insurance, a 401(k) plan, and a stock purchase program, most receive a minimum wage salary.[39] Of the employees that the researchers spoke to, everyone earned minimum wage.

It should be mentioned, however, that many of the employees also receive tips, so their take-home pay is greater than minimum wage. Still, some employees earning minimum wage have worked at the hotel for well over five years. One worker commented that while he may have the option of health insurance, the cost of putting his family on it was impossible on the wages he earned.[40] This begs the question that if one cannot even afford health insurance, who can afford a benefit such as a 401(k) plan or stock purchase program? And even though there is an incentive policy in place for some jobs (employees can increase their pay by up to $1.00/hour through merit increases determined by management), this is still not enough to recruit workers in today's tight labor market. Employee turnover at the hotel stood at 48 percent in 1998, an improvement from the 1997 rate of 52 percent.[41] This improvement was attributed to the hotel’s takeover in 1996 by Strategic Hotel Corporation, which implemented a much more rigid structure

[39] Dan Javinsky interview, 26 March 1999.
[40] Employee interview, 23 May 1999.
[41] Javinsky.

than had Wolff. Their structure adheres to Hilton corporate policies on everything from service to food quality to management. Several employees saw this new management style as positive.

The Hilton expansion, completed in 1991, provides some insight into how redevelopment works and the extent to which the agency acts more like a private developer than a public servant. In this case, both parties cut a deal that would involve, according to Wolff, a "business risk"[42] chiefly financed by the city at a time when Burbank's economy had not yet turned around. Although decisions like this are cut everyday in corporate boardrooms and over business lunches, redevelopment involves public funds and is carried out in the name of the public good. According to Wolff, the city did not even perform a feasibility study to determine its actual needs and whether the market could bear the additional rooms and conference center, or consider other alternative ways of operating the project.[43] In the city's defense, the Development and Disposition Agreement did include a ten-year proforma, though it made some ambitious assumptions, including an 80 percent occupancy rate by year five of the project (current occupancy stands at only 70 percent). Also, the 1970 letter to the Council that mentions the desire for a conference center justifies its claims by citing a study carried out by Development Research Associates, which today is almost twenty years old.

CONCLUSION

The City of Burbank has been extremely successful at generating the necessary tax revenue to keep it operating, even during the recessionary years. In the process, it has become a city that not only draws people from outside the city to its shopping and entertainment facilities, but also seems relatively successful at keeping its own residents within its borders when they spend their money. Burbank also proclaims itself "The Media Capital of the World,"[44] and all three of the biggest studios are in the process of expanding, which will bring with it even more good paying jobs. One wonders how much of this can be attributed to history and how much to strategy. Also of concern is the

[42] Lew Wolff interview, 3/14/99.
[43] *Ibid*.

extent to which the practices of the redevelopment agency may also be fueling gentrification and economic stratification by creating a glut of low paying service jobs associated with the same businesses that it relies so heavily on for taxes. Additionally, while the city and redevelopment agency seem more strategic in their planning today than was the case at the time of the Hilton deal, it remains to be seen how this strategy will measure up if and when a downturn in the economy occurs—will the taxes dry up? Lastly, has the strategy of catering to business created a wealthy and seemingly successful municipal jurisdiction, the wealth and success of which is not necessarily reflected in the lives of the people who actually live there?

[44] http://www.burbankca.org/mediacap.html

Compton: Rebuilding a City for the People Who Live There

INTRODUCTION

The Compton Redevelopment Agency (CRA) was created to rebuild local services and infrastructure for a financially devastated community. Established in 1971, the CRA has two purposes: (1) to bring retail, commercial, and industrial business into the City of Compton, and (2) to generate tax revenue. The primary focus has not changed since its initial adoption. It remains an advocate for its citizens as is evident in the diversity and scope of its projects. The combined effects of Proposition 13, loss of manufacturing jobs, and the national recession of the early 1990s devastated the economy of the City of Compton. The city's current problems with business retention, a large low-income population, and community schools that rank among the lowest in the nation, reflect challenges Compton faces as it attempts to rebuild its economy.

CITY SNAPSHOT

Founded in 1888, Compton grew from an agricultural community to a suburban bedroom community during the 1930s through 1950s. Today Compton is a city of contrasts. It is an old bedroom community, located between five major Los Angeles freeways. It is a community divided by railroad tracks and a light rail system. This system is a part of the Alameda Corridor System—a system of tracks running from San Pedro Harbor to downtown Los Angeles. "It is a culturally and racially diverse city in search of a new image."[45]

In FY 1995-1996, its population was estimated at 93,268. The 1990 US Census indicates approximately 53 percent of the population is black and 44 percent is Hispanic. While Compton's population is relatively young (median age of twenty-five), 54 percent of Compton's population falls between the ages of twenty and sixty-four, a category known as the "working age." However, only one-third of the population is employed, with 39 percent working in white-collar jobs and 61 percent working in blue-collar jobs.[46] The

[45] Compton Redevelopment and Housing Implementation Plan Update—FY 1997-98 to FY 2002-03, pg.1-2.
[46] City of Compton CRA brochure, *Opportunity on the Horizon*.

city's median income in 1989 was $31,367. In contrast, cities of similar size and composition showed a median income of $45,597. According to the 1990 US Census, Compton leads Los Angeles County in the number of children under five in poverty, with 39 percent.[47] Individually, the above categories suggest a depressed economy. Combined, they are dramatic proof of the city's depressed economic conditions.

Since 1976 total city revenues have been on the increase. In 1996, revenues were $71 million, an obvious increase from $66 million in 1986 and $33 million in 1976. Tax revenue in 1996 generated 37 percent of total revenues. Sales tax revenue generated 6 percent, while property taxes generated 15 percent of total tax revenue.[48]

OVERVIEW OF REDEVELOPMENT

In response to critically depressed economic conditions and faced with the need to continue providing basic city services (police, fire, traffic, and other infrastructure needs), the Compton City Council established the Compton Redevelopment Agency in 1971. The first CRA project areas were unique and distinct projects. However, City Council amended all project areas in 1991 and merged them into one project area to form the Compton Redevelopment Project Area. The merged project area encompasses almost 2,635 acres of land and resembles a backbone with fingers off its spine. See Appendix B for a project area map. The backbone of the project area runs almost the length of the City from Alameda Street and Alondra Boulevard to El Segundo Boulevard. There are three sets of fingers on each side of Alameda Street. Redevelopment land use is characterized in Table 4, below.

Use	% of City Area
Residential properties	40 %
Transportation properties	21 %
Industrial properties	18 %
Public/quasi-public lands	11 %
Commercial properties	7 %
Vacant land and/or open space	4 %[49]

Table 4: Redevelopment Land Use by Category.

[47] 1990 US Census data.
[48] Controller Kathleen Connell, *State of California Cities' Annual Report, Fiscal Year, 1995-96*.
[49] *Opportunity* brochure.

Today, CRA staff seeks projects that provide services and development through:

- Analyzing citizen needs and current community assets,
- Creating projects that provide a balanced community that integrates income levels, housing, open space, commercial, and retail needs;
- Implementing Council directive that requires each project be self-sustaining; and,
- Sponsoring projects that remain within the community and give citizens local access.

The stated purpose of the CRA reflects its community's needs: "...to create a visible, affluent, self-reliant and safe community by the resurgence of Compton's physical, economic, and social development through the dynamic growth achieved by commercial, industrial and residential progress."[50]

All redevelopment projects are funded through standard bond financing. A history of Compton's redevelopment debt is as follows (below dollars are nominal dollars):

- Between 1976 and 1987, the Compton Redevelopment Agency floated bonds totaling $87 million.[51]
- Total authorized long-term debt as of 1995 was $105.3 million.
- Of this $105.3 million, as of June 30, 1998, $5.7 million had been retired.
- In 1998 combined debt service (principal and interest payments) totaled $9.2 million.
- Tax increment funds in 1998 totaled $11.9 million.[52]
- It appears that the CRA does not participate in pass-through funding requirements of AB1290.[53]
- The maximum amount of bonds the Compton Redevelopment Agency can issue is $500 million.[54]
- As of June 30, 1998, total CRA indebtedness was $221.2 million.[55]

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[50] *Ibid*.
[51] Later these bonds were recalled and reissued, once in 1989 and again in 1995. Interest rates were lowered and total authorized amounts were increased.
[52] City of Compton, *Annual Report of Financial Transactions of Community Redevelopment Agencies, FY 1995-1996*, pp. 0-5, Schedule A-RP, p.1.
[53] *Ibid*. AB 1290 was a 1993 Assembly Bill that tightened the definition of blight and required a pass-through to other taxing agencies of 33% of RDAs statewide.
[54] Ryan Lewis, City of Compton CPA, telephone interview, 25 April 1999.
[55] City of Compton, *Annual Report of Financial Transactions of Community Redevelopment Agencies*, FY1995-1996, Schedule E-RP, p. 3-2.

Table 5, below, lists and describes Compton's community-based redevelopment projects.

PROJECT/PROGRAM	LAND USE/FINANCIAL SUPPORT
Alondra Landfill Site	A landfill reuse (planned community park) which establishes open space and recreational facilities
Martin Luther King, Jr. Transit Center	A multi-use transit hub (see case study)
Corridor Improvement Plans	A small business program for store-front upgrades
Corridor Residential Revitalization Plan	A loan program for residential upgrades
A Senior Citizen Park	Residential, multi-use and community park
1900 N. Central Avenue 1997-98	Affordable single family homes with first-time homebuyers' assistance
Burrell-McDonald Park	Residential multi-use and community park

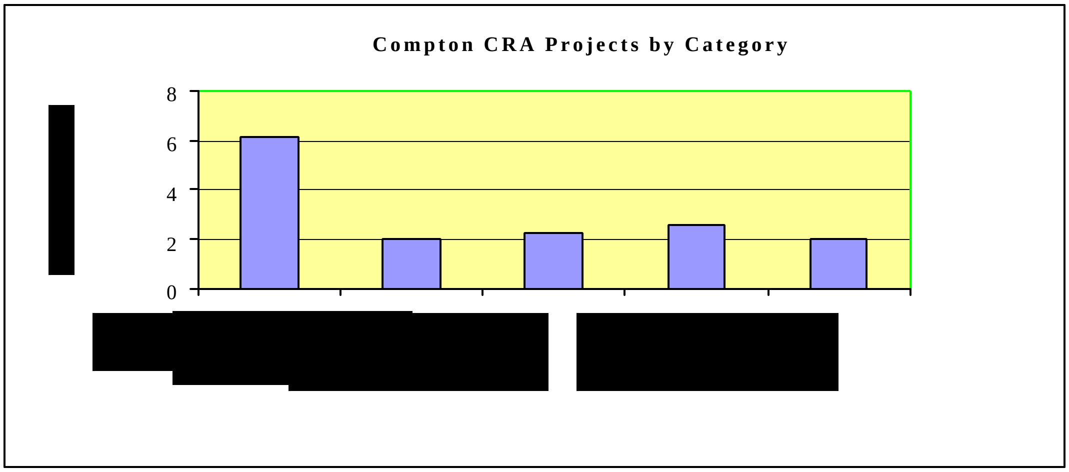
Table 5: Many of Compton's redevelopment projects meet basic citizen needs as articulated within Resolution 18 of the Urban Development Commission of the City of Compton and do not generate tax revenue.

Table 6, also below, presents the RDA's commercial projects.

PROJECT/PROGRAM	LAND USE/FINANCIAL SUPPORT
Radisson Crystal Park Hotel & Casino	A 90,000 square foot entertainment facility/hotel
Rosecrans & Central Commercial Area	Commercial and retail services
Renaissance Shopping Center	Commercial strip center
Town Centre (strip center)	Commercial strip center
Compton Blvd. & Willowbrook Ave.	Mix-use commercial, retail & entertainment
HUB City Entertainment Center	Mix-use commercial, retail & entertainment
901-909 S. Central Avenue	Grocery/retail
Impressions Plaza	Grocery/retail

Table 6: Other projects address the City's need to generate tax revenue.

The graph below shows all projects by category. This chart includes proposed projects.



CASE STUDY: THE MARTIN LUTHER KING, JR. TRANSIT CENTER

Sources within the Metropolitan Transit Authority (MTA) created the concept of a

"transit center." The MTA chose Compton as a demonstration site because numerous transportation routes crisscrossed the city. The Alameda Corridor Project and the proposed Blue Line Light Rail Systems run through Compton as well as four bus lines. The CRA staff recognized the benefits that a Center would bring to its citizens. They placed additional value on the Center's location as a connection point to nearby CRA retail and civic projects — the Compton Town Centre Shopping Mall, the Renaissance Shopping Center, and the Central Business District. CRA staff made the final decision to create the transit center after it learned the Blue Line Light Rail system would make two stops within city limits.[56]

[56] Gloria Falls, Project Manager, interview, 5 March 1999. Note: Transportation-related facilities command a strong presence within the city since these facilities occupy 21 percent of all available land.

Staff designed the Center to house facilities and tenants who would serve local residents, commuters, and parents. The tenants are a hair salon, a local sandwich shop, the Drew Child Care Center (a Head Start Program), and a professional day care center. A community center, the Operations Department of the City of Compton, and the Chamber of Commerce are also located in the Center. Today the bus lines that serve the Center include the Metropolitan Transit Authority, Greyhound, City of Gardena, and Compton Renaissance Bus Lines.

In 1996 CRA staff decided to incorporate a "TeleVillage," a community technology center, within the complex when they learned that the MTA was installing fiber-optic cable along the Blue Line Light Rail Route. The Blue Line TeleVillage[57] became the first of its kind in the nation and transformed the Martin Luther King, Jr. Transit Center into a multi-use transit, high-tech training and communication facility.

The Center is located on a former Boy's Market site that the CRA had purchased at an earlier date. In 1987 staff issued Requests for Proposals (RFPs).

Concurrently, the agency applied for and received, County of Los Angeles Proposition A Funds[58]; the State of California Transportation Grant Funds, and federally-funded monies from the Alameda Corridor Project. The use of these particular funding sources within redevelopment projects is unique. The CRA staff had successfully captured transit-related dollars and fashioned them into primary funding for adaptive reuse of an abandoned

[57] The Blue Line TeleVillage is a membership driven computer training and use center. It provides classes to the community and access to the emerging world of high tech. It has an area for faxes, E-mail, and a teleconference ability. Additional financial support has been given by Bank of America through three annual grants of $10,000 each.

[58] Proposition A was a voter initiative that required Los Angeles County Board of Supervisors to set aside

commercial site. The CRA itself was responsible for only 25 percent of total dollars spent.

Once a contractor was chosen, staff negotiated requirements that:

- Utilized local construction employees when feasible;
- Required a project completion time of nine months; and
- Defined a schedule-of-payment based on a three-month advance estimate, supported by relevant documentation per three-month period.

Project Manager Gloria Falls recalls that, once the ground was broken, construction problems and an unseasonably wet rainy season delayed the project. As construction problems increased, the city called for a "notice of default." Fireman Insurance Fund called the performance bond and shut the job down. Fireman's Insurance Fund issued a new RFP and hired another contractor with similar local guarantees.[59] Construction continued, but the Center was not completed by opening date of the Blue Line Light Rail. Despite incomplete construction, city staff was able to house the US Census Bureau personnel (1989) for the 1990 Census. Immediate use of the facility provided revenue needed to correct construction defects.

The CRA issued a "Notice of Completion" for the Center in February 1991. Final costs for the Martin Luther King, Jr. Center totaled $6.4 million which included the two CRA investments: (1) the original CRA subsidy ($814,071), and (2) the CRA-financed "change order costs." The CRA total subsidy was 25 percent of total costs, as seen in Table 7 below.

CalTrans	$2,004,071
Los Angeles County Transportation Commission: Proposition A Funds	$2,808,643
Compton Community Redevelopment Agency's Tax Allocation Bonds	$ 814,071
Total Initial Costs	$5,626,785
Change Order Costs	$ 754,829
Final Costs	**$6,381,614**

Table 7: Martin Luther King, Jr. Transit Center Subsidies

monies for projects that improved public transportation access.

[59] The Department of Training and Technical Services provided additional workers when needed.

Survey Results

The researchers interviewed the current tenants in the Martin Luther King, Jr. Transit Center using the same questionnaire for each interview. [60] The questionnaire addressed the following categories: leases, employment outcomes, job availability, number of jobs, and employee wages and benefits. The sites included the Blue Line TeleVillage, City of Compton Department of Operations, Charles Drew University Head Start, the Compton Chamber of Commerce, CR Salon, Forges Sub-Factory, and a child care center. A chart detailing answers by tenants is located in Appendix B. A listing of information follows.

Information Gathered from Businesses

- Six sites employ seventeen full-time employees and six part-time employees.
- Employee average age is mid-thirties.
- Eighteen of the employees live within a three-mile radius of work. The remaining employees live less than ten miles from work.
- Nine full-time employees have health benefits. Of the nine, three are employed by the Operations Department of the City of Compton. The city's wage/benefit regulations indicate that part-time employees must work 1,001 hours before benefits are included. This regulation impacts the three part-time employees (50 percent of all part-time employees at the Center) of the Operations Department.
- CR Salon stylists are responsible for their own benefits.
- Although employment is stable within the entire Center, the salon recently hired two full-time employees.

Site Advantages are as follows:

- A convenient location within the central business district;
- Adequate parking;
- Professional atmosphere within the Center;
- Access to other forms of pubic transportation;
- Walking distance for many citizens; and
- A well-maintained structure.

[60] See Appendix C for survey, *Occidental College Public Policy Program Community Redevelopment Agency Evaluation,* and responses.

Site Disadvantages are as follows:

- Lack of a "Public Notice" Directory that would be located outside of the Center and would attract a larger consumer clientele in addition to the commuters. Several tenants expressed dismay that the City has not installed this long-promised signage, and
- Transients.

Miscellaneous Information

- The Center's busiest hours are from 2:00 to 8:00 p.m.
- Wage information was not available mostly because of privacy standards. The Chamber of Commerce does pay well in excess of the minimum wage, per the researcher's conversation with the Chamber's Office Manager. City staff wages are competitive with other city wages for the same classification.
- The non-profit businesses rental rate is $1.00 a year.
- The for-profit businesses rental rate is $1.25 per square foot.
- The bus lines lease busing lanes at $1.00 per year and the city gives bus drivers free bathroom and lounging facilities.[61]
- Compton Community Redevelopment Agency assistance included: land assembly, public infrastructure improvement, and rental subsidies.

CONCLUSIONS

The current mixture of projects developed by the Compton Redevelopment Agency reflects an agency that is focusing its strategy based on the following community development goals:

- Retaining basic amenities in the city;
- Incorporating commercial, retail, industrial, and office space into the General Plan[62];
- Keeping tax dollars within the community in an effort to revitalize the social, economic, educational, and business elements; and
- Circulating dollars six to seven times within the community.

Future CRA projects (both in negotiation and proposed) appear to continue the mix of community benefit and for-profit ventures. The purpose of the former is to create a city rich in community resources. The latter is meant to create broad-based, dependable flows of tax revenue.

[61] Falls.
[62] Information specific to project financial costs and expenditures was inaccessible. The reasons for this were two-fold: (1) the recent move of city documents to an off-site storage site, and (2) a relatively new Finance Department.

The CRA hopes to attract more big-box retail stores like Costco and Frys as anchors in future developments. Currently, two of their shopping centers are anchored by the big-box retail stores of K-Mart and Circuit City.

In addition to big-box retail, CRA staff recognizes the importance of cultivating small business growth and retention. Their *Corridor Improvement Plan*, a grant-making program directed at small businesses, is one example of the CRA's focus on this need.

These goals have a better chance of accomplishment through the CRA's formation of a contiguous redevelopment area which allows for tax increment dollars to be used throughout the city's project areas.[63] The Compton CRA exemplifies interaction of public, private, and non-profit sectors rebuilding an old, impoverished community to meet the needs of its citizens today.

The City of Compton, unlike Burbank, does not have developers lined up at the door, though it is trying to raise revenues with ventures similar to those used in the other cities. However, instead of attracting high-end shoppers, Compton is gambling on a casino to provide one source of continuous revenue.

While Compton does have land to develop, because heavy industry, such as rubber plants, was located there earlier in the century, many sites may be designated as brownfields.[64] If brownfields are identified, developers will continue to avoid Compton.

The Compton CRA philosophy of "a public run agency with private sector thinking"[65] should guarantee continued aggressive use of the redevelopment agency.

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[63] CRA legislation requires that all tax increment dollars brought into a project area must be used within that area only.

[64] Brownfields are former industrial sites that do not make the Environmental Protection Agency's National Super-Fund List but which have substantial contamination issues. Federal law requires the **new** owner of the property to clean up the property prior to re-use and is liable for all costs of clean-up. Naturally, these requirements can create checkerboard Brownfield sites throughout communities.

[65] Cynthia Coleman, CRA Director, interview, 3 March 1999.

Lancaster: Building a City

INTRODUCTION

The City of Lancaster is a relatively new city. Its redevelopment has focused on transforming a bedroom community into a self-sufficient city. The redevelopment agency in Lancaster was established two years after the incorporation of Lancaster. Though the pursuit of sales tax and retail development has been a priority of the city, it is evident that Lancaster's RDA has also focused on new industrial facilities, existing businesses, and building a physical infrastructure for municipal services.

CITY SNAPSHOT

Lancaster is a relatively new city and was incorporated in 1977. It is located in the center of the Antelope Valley, the northernmost portion of Los Angeles County. The heart of the city is fairly densely populated with a population of 127,136,[66] while the city proper is surrounded by large plots of undeveloped land. The ethnic make-up of Lancaster is predominantly white (73.2 percent) and has a median income of $48,220. The percentage of the adult population over eighteen that has graduated with a high school degree or better is 78 percent, and 14 percent of the adult population has a college degree or better.

Since the 1930s when the Army Air Force first started conducting flight tests at Muroc Air Base (later renamed Edwards Air Force Base) the Lancaster area has served as a residential community for military and civilian personnel. Its economy was driven mainly by the defense and aerospace industries. The dominance of this industry grew as other military-related firms and activities claimed the Antelope Valley as their home: Lockheed-Martin Skunkworks, Northrop Grumman–B-2, the Federal Aviation Administration's Air Route Traffic Control Center, and NASA. As of 1998 approximately 27,000 jobs in the Antelope Valley were associated with the military and aerospace industry.

In the early 1980s, the leadership of the Antelope Valley recognized that employment in the aerospace and defense industries was vulnerable to global defense downturns and the whims of politicians who allocated government contracts. They also recognized that people from the San Fernando Valley were migrating to the Antelope Valley in very large numbers to seek the benefits of the high desert area's lower cost of living, primarily reflected in lower housing prices. Yet these same people retained their jobs in the San Fernando Valley. This time period, the early 1980s, was a time of real growth for the City of Lancaster.

OVERVIEW OF REDEVELOPMENT

The agency's primary goal has been to make Lancaster into an economically independent city. In 1979, two years after its incorporation, and one year after the passage of Proposition 13, the City Council of Lancaster formed the Lancaster Redevelopment Agency with the City Manager as Executive Director. An excerpt of the mission statement of the redevelopment agency follows:

> Through maximum utilization of financial and human resources, it is the intent of the Redevelopment Agency to create incentives for private investment in our Project Areas….The Agency's goal is to produce viable, self-sufficient Project Areas.[67]

Lancaster's stated goals are not too far from its practices. Much of the economic development in Lancaster is done by giving subsidies to private companies. Incentives such as deeding land and building infrastructure are available to entice retail and industrial developments to locate within the city. However, many non-commercial projects have been a part of the RDA's strategy. Publicly funded projects include infrastructure improvements, a sheriff's station, a county library, and affordable housing projects, all in various stages of construction. The chart below categorizes the accomplishments listed by the RDA for 1995-1999.[68] It is clear that the agency has focused on a variety of project types. In Lancaster, creating self-sufficient project areas is nearly equivalent to creating a self-sufficient city.

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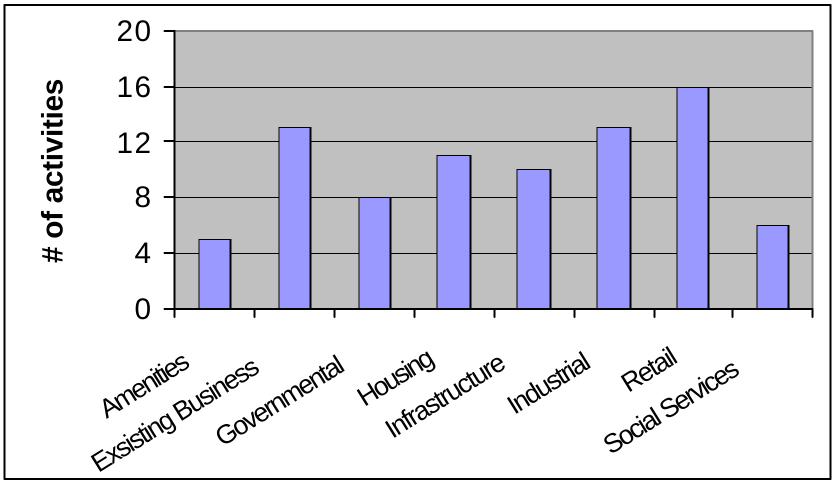
[66] City of Lancaster, *Lancaster Demographic Information Packet*, July 1998.
[67] City of Lancaster, *Midterm Update of the Five-year Implementation Plan*, 25 November 1997.
[68] *Ibid., p. 8-19.*



The project areas mentioned in the RDA's mission statement encompass 49 percent of the entire city. Table 8 below lists the seven project areas in Lancaster and indicates the acreage that is under the control of the RDA. Also see Appendix D for Project Area map.

Project Area[69]	Adopted	Duration	Size	Description
Residential	10/24/79	2019	600 acres	Plots of residential buildings scattered all over the city.
Central Business District (the only contiguous project area)	7/1/81	2026	438 acres	Center of the city; government facilities, Metrolink, and social services located here as a result of redevelopment activities; most densely developed.
Fox Field	12/20/82	2022	3,290 acres	Primary focus of area is industrial facilities; Lancaster Business Park located here; much undeveloped land.
Amargosa	10/17/83	2028	4,599 acres	"Power Center" located here with tenants such as Costco and WalMart; most new retail development in this project area.
Area No. 5	11/26/84	2029	4,523 acres	Future site of 950-seat convention center.
Area No. 6	6/5/89	2034	12,748 acres	Future site of the Southern California Veteran's Home; also houses industrial development, warehouses, and mobile home parks; much undeveloped land.
Area No. 7	11/29/92	2037	1,504 acres	The newest project area; incorporated land that was previously gaps between project areas.

Table 8: Lancaster Redevelopment Project Areas

[69] *Ibid., p. 5-19.*

In the FY 1996-1997, these project areas generated $24 million, the fourth largest amount generated by an RDA in California.

CASE STUDY: MICHAELS DISTRIBUTION CENTER

Due to the diversity of project types initiated by the RDA, no single project typified the activities of the Agency. The Michaels Distribution Center was chosen as a case study for Lancaster because the circumstances involved in the project are unique to this type of city. Distribution centers require large plots of land, a commodity that Lancaster has in abundance. In addition, this development brings jobs into the city and helps transform Lancaster from a bedroom community to one that is more economically integrated.

History of the Project

Michaels Stores is a leading wholesaler/retailer of arts, crafts, and home décor and in 1996 had annual sales of $1.4 billion. The previous location of its distribution center was in Orange County in the City of Buena Park. According to May Hui, Economic Development Director of the City of Buena Park, Michaels had leased a 400,000 square feet distribution center in that city. According to Ms. Hui the reason for Michaels' departure was that they wanted a larger facility that was located closer to the center of California.

Unfortunately, the researchers were unable to determine why Michaels made the decision to move to Antelope Valley rather than to another location in California. Telephone calls to Mr. Doug Sullivan, Vice President of Michaels Stores, to determine why this decision was made went unanswered. Perhaps increased access explains locating a distribution center in Lancaster, since it affords greater accessibility than many cities; it is relatively close to the Los Angeles basin and is also near freeways with access to central and northern California and major cities in Nevada.

Lancaster, however, is not the only city in the region. The city of Palmdale is located ten miles to the south. Danny Roberts, head of the redevelopment agency in Palmdale, indicated that Palmdale could not compete with Lancaster for the development because their agency does not "bank" land in the way Lancaster does. Assembling the amount of land required by Michaels would have significantly delayed project implementation. Time was apparently an important factor in Michaels' decision, therefore, Lancaster was chosen over Palmdale.

In September of 1996, the Lancaster Redevelopment Agency agreed to the terms and conditions in the Disposition and Development Agreement. Together with a staff report of recommendation, the agreement was approved by the City Council in July of 1997.

Subsidy

The Lancaster Redevelopment Agency had land in their possession and made an agreement with Michaels, giving them forty acres of land to develop a 432,000 square feet distribution center.[70] (This site has the ability to expand to 600,000 square feet at a later date.) In return, the construction costs paid by Michaels were not to be less than $16 million. The redevelopment agency agreed to provide the necessary infrastructure: water, sewer, gas, street widening, traffic signals. It may be important to note that the traffic signal will be shared with the Rite Aid distribution center being constructed across the street. In addition, all development fees normally paid to the City of Lancaster were waived. The RDA required that the distribution center house a minimum of 130 employees and service 250 stores in the western region.

[70] Lancaster Redevelopment Agency, *Disposition and Development Agreement By and Between The Lancaster Redevelopment Agency and Michaels Stores, Inc.*, July 1997.

The costs to the redevelopment agency were great. The 40-acre lot was purchased by the Agency in 1992 for $1.4 million at the height of the real estate boom. When the land was deeded to Michaels in 1997, the land was appraised at $118,182. The fees that were waived totaled $1.7 million. The total quantifiable cost to the RDA was $2.9 million. Unfortunately, the infrastructure costs could not be quantified.

With such a large investment in this project, the agency was able to negotiate several benefits in return. First, the agency expects total tax increment between $2.9 million and $3.5 million. This amount will be generated over the life of the project and will end in 2034. The Net Present Value of this profit is estimated between $1.4 million and $1.6 million. Michaels has agreed never to reassess its property, even if land values decline, guaranteeing the agency a minimum base property tax increment return.

The jobs that the distribution center created are paying a minimum of $8.50 per hour plus benefits. Annual payroll is approximately $2.3 million. These employees are primarily from the region and were not transferred from Buena Park. One potential benefit to local landowners is that the facility will attract future developments to the area and an increase in property values.

In examining the Michaels project it was helpful to sum up costs and benefits that the city incurred. In Table 9 below, a side-by-side comparison, it is clear that the agency will, at best, be able to recover the costs incurred by bringing in the Michaels Distribution Center.

In 1998 dollars	Costs to Agency	Benefits to Agency and community
Sum of $ amounts	$2,870,875	Between $1,363,924 and $1,619,657
Value not quantified or included in sum	Installation of gas, sewer and water.	130 jobs starting at $8.50/hour with benefits (with possible $1.50 increase after 24 months); approximately $2.3 million every year.
	Street widening and paving.	Prohibited owners from reassessing property at lower value.
	Installation of signal light.	Hope for area landowners of increased property values.

Table 9: Cost and Benefits of Michaels Development

It is interesting to note that when the distribution center first opened in 1998, 400 employees were hired. Michaels had more than fulfilled its employment obligations. One year later, the number of employees has dropped to 220.[71] Joan Meyers, Human Relations Manager at the site, stated that the number of employees would continue to decrease to about 200. She explained that the sharp decrease in employment was due to the fact the facility was becoming more efficient and needed fewer employees.

Summary

The Michaels development is one of the many types of projects with which Lancaster's RDA is involved. The city's abundance of undeveloped land under RDA control gives it the opportunity to create incentive packages for businesses looking to locate or relocate a distribution center. These incentives are drawn up with the hope that businesses that relocate to the city will stimulate the local economy. However, a close examination of the Michaels project indicates that the benefits to the city merely balance the cost of bringing the distribution center to the city.

CONCLUSION

Lancaster has been successful in creating for itself a self-sufficient city. It is no longer simply a bedroom community. Previously vacant and "blighted" land is used in such a way so as to enhance the quality of life in Lancaster and to raise property values.

This study of Lancaster has raised the issue of whether or not redevelopment should be used as a method to build a new city. The RDA's control over such a large portion of the city raises the question of whether or not the agency is abusing its powers. In a city with a relatively high median income, was declaring 49 percent of the city blighted appropriate? Since all of the project areas were created right before the Legislature tightened the definition of "blight," did Lancaster rush to declare land blighted? Lancaster has been able to bring in jobs, stores, and services, but perhaps redevelopment is not the correct tool for building a new city.

[71] Joan Meyers interview, 27 June 1999.

Long Beach: Rebuilding a City for Someone Else

INTRODUCTION

Long Beach created its redevelopment agency in 1961 to address the health and safety hazards in areas of the city that had become “urban slums.”[72] But now, the agency concentrates its redevelopment efforts on the city’s stated economic development strategy: “3 T’s and an R”—Tourism, Trade, Technology, and Retail. Long Beach redevelopment projects primarily promote tourism and regionally-serving retail. By building developments for tourists and consumers from throughout the region, Long Beach aspires to attract outsiders in order to increase its municipal revenue base through Transient Occupancy Tax and sales tax.

CITY SNAPSHOT

The City of Long Beach was incorporated in 1897, and is located at the southern boundary of Los Angeles County and along the Pacific Ocean. In the 1950s, the City of Long Beach, with its sunshine, ocean view, and high-paying blue-collar jobs in shipyards and airplane manufacturing plants, was a magnet for Midwesterners. The growing city was popularly known as “Iowa by the Sea.” The end of the Cold War brought defense spending cuts and consolidation in the defense industry. As a result, Long Beach is a radically different city. From the late 1980s to the present, Long Beach has suffered several employment losses: some 6,000 jobs with the closing of its Naval Shipyards, 4,000 jobs with Hughes Aircraft, and another 4,000 jobs when Boeing merged with McDonnell Douglas. Accompanying these massive employment losses, Long Beach's demographics have changed—the city is “Iowa by the Sea” no longer.

Long Beach's changing economic base increased its citizens' service needs. In addition, Proposition 13 severely limited the city's ability to fund itself. In 1978, prior to the implementation of Proposition 13, property tax revenues accounted for 28 percent of the city's General Purpose Fund (Long Beach funds most of its "traditional" city services—public works, human services, fire, police, etc.—from the General Purpose Fund).

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[72] City of Long Beach, *West Long Beach Redevelopment Project Five-Year Implementation Plan July 1,*

Immediately after the passage of Proposition 13, city management took proactive steps to find new sources of revenue. Twenty years later, property taxes were 14 percent of the General Purpose Fund.

OVERVIEW OF REDEVELOPMENT

To revitalize its economy (i.e., to replace lost jobs) and diversify its revenue base (i.e., to replace lost property tax), Long Beach launched an aggressive economic development strategy called "3T's and an R." Having slipped from "Iowa by the Sea" to become a "blighted" big city, Long Beach wanted to refashion itself as an "eclectic and engaging" destination city.

Besides the Port of Long Beach, redevelopment is the primary engine of this economic development strategy. Since 1982 in the downtown area alone, the City of Long Beach Redevelopment Agency has participated in the development of approximately 2,000 hotel rooms and approximately 800,000 square feet of retail space.

Project Area[73]	Adopted	Duration	Acres	Use
West Beach	July 21, 1964	July 21, 2024	21	Adjacent to Downtown, similar development strategies.
Poly High	April 3, 1973	April 3, 2003	87	No development in this project area in the last decade.
West Long Beach Industrial	July 1, 1975	July 1, 2025	1,350	Primarily land assembly for industrial users in large industrially zoned area north of the Port.
Downtown	July 17, 1975	July 17, 2025	421	Hotels, offices, regional retail, and tourist attractions.
Los Altos	December 10, 1991	December 10, 2036	45	Retail development in a middle-income neighborhood.
Long Beach/405 Retail Center	August 17, 1993	August 17, 2038	85	Proposed gigantic retail development (includes an auto mall). Project currently on hold.
Central Long Beach	September 21, 1993	September 21, 2038	2,618	Primarily community serving retail in area that includes city's largest low-income neighborhoods.
North Long Beach	Not Available	Not Available	12,507	Hodgepodge of areas scattered throughout the city. Includes the Port. Most recent project area.

Table 10: Long Beach Project Areas

1995 – June 30, 2000, adopted 1994.

[73] See Appendix F for map of redevelopment project areas.

The redevelopment agency was created on November 17, 1961 by the City Council. Not including the North Long Beach project area, the agency has $297 million in long-term debt and a maximum tax increment limit of $5.1 billion. Eight redevelopment project areas in the City, created between 1964 and 1993, are listed and described in Table 10, above.

The total acres for all eight redevelopment project areas is 17,153, which makes 54 percent of the city within a redevelopment project area. The redevelopment project expenditures for FY 1995-1996 were almost $17 million, while the city expenditures for this same time period were a little over $71 million. Table 11, below, shows how much the redevelopment agency has spent in each of the project areas from FY 1990-1991 to FY 1997-1998.

Project Area	**Capital Expenditures[74] From 1990-1998**	**Percent of Total**
Downtown	$196,361,791	62%
West Long Beach Industrial	$85,507,594	27%
Los Altos	$16,629,252	5%
Central Long Beach	$7,319,543	2%
West Beach	$4,486,800	1%
Poly High	$3,127,524	1%
LB/405 Retail Center	$3,115,496	1%
North Long Beach	$211,984	0%
TOTAL	**$316,759,984**	

Table 11: Agency Expenditures by Project Area

The city has spent a total of 63 percent of all redevelopment capital expenditures to build up the Downtown and West Beach Project Areas in order to attract tourists and high-end commercial and residential users. In contrast, the newer, Central Long Beach project area, where most of the city's lower-income residents live, received only 2 percent of agency funds.

In FY 1997-1998, the agency had revenues of almost $30 million and expenditures of almost $28 million. In six of the seven previous years, the agency showed operating losses. Of the $28 million in expenditures, $9.5 million were capital expenditures and $18 million were debt service.

CASE STUDY: THE HYATT REGENCY HOTEL

Tourism is one component of Long Beach's economic development strategy. In light of this, the redevelopment agency is currently considering proposals for the construction of at least three new hotels. The research team decided to get insight on the Agency's record with hotel development by studying a completed hotel project. The team chose the Hyatt Regency Hotel of Long Beach, located within the Downtown Redevelopment Project Area, as a case study.

Historic Overview of the Hyatt Regency Hotel

The Hyatt Regency Hotel of Long Beach represented a twelve-year effort by the City of Long Beach to obtain a first-class hotel for the city. The city aggressively pursued plans for the construction of a new hotel during the 1970s in order to accommodate the needs of the new Convention Center and to help bring visitors to Long Beach. In addition, city officials during the 1970s and early 1980s wanted to make a statement that Long Beach had not succumbed to urban decay.

The Long Beach Hyatt-Regency

The Hyatt Hotel Corporation had been interested in working with the city to build a first-class hotel for many years, but its efforts had been unsuccessful. The Hyatt Hotel Corporation's opportunity to build a new hotel arose when negotiations between the City of Long Beach and the Sheraton

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[74] Capital expenditures account for all the money spent on acquisition and construction for redevelopment projects, including administrative costs. Capital expenditures specifically do not include debt service.

Hotel Corporation fell through.[75] As a result, the city began immediate negotiations with the Hyatt Hotel Corporation. The city was prompted to act quickly in order to secure the coastal permit, which was granted to the original Sheraton Corporation project plans.[76]

Abram N. Pritzker, president and founder of Hyatt Hotel Corporation, formed the Hyatt Regency Long Beach Corporation as a wholly-owned subsidiary of the H.G. Corporation in order to continue with construction plans for the new hotel.[77] The plans for the Hyatt in Long Beach included the construction of 542 rooms adjacent to the Long Beach Convention Center and would include the following facilities:

- Restaurants and Coffee Shops
- Cocktail Lounges
- Ballrooms
- Meeting Rooms
- Tennis & Racquetball Courts
- Swimming Pool, Jacuzzi, Sauna
- Public Plaza
- Public Garage for 1,258 cars
- Retail Shops

The Hyatt project, which was completed on June 1, 1983, was one of the first major hotel corporations to enter the Long Beach market. Since that time, other hotel chains such as the Sheraton, Hilton, and Westin have joined the city.[78]

Hotel Costs and Subsidies

The Hyatt Long Beach Corporation was the developer of the project and continues to own and operate the hotel. The Hyatt was built on 8.5 acres of the Tidelands area, located north of Shoreline Drive and east of Pine Avenue. The fifty-year contract between the city and the Hyatt Regency Long Beach Corporation began when the hotel opened for business. The total cost of the project amounted to $66.7 million, which included the

[75] City of Long Beach, Department of General Services, Hyatt Regency Hotel report, 17 October 1979.
[76] City Auditor, Audit on the Hyatt Long Beach Corporation, 20 February 1985.
[77] *Ibid.*
[78] Ronald A. Walker, Special Projects Office for the Department of Community Development, interview, 5 May 1999.

costs for development, construction, hotel furnishings, and adjacent facilities. Table 12, below, illustrates the breakdown of the funding sources for the hotel.[79]

Cost	Source of Funding	Use
$54,000,000	First National Bank of Chicago	Mortgage
$6,700,000	Long Beach (Tidelands Trust)	Site Improvements
$3,000,000	UDAG-Federal grant	Public Facilities
$3,000,000	Hyatt Corporation	Equity
Total Cost = $66,700,999		

Table 12: Breakdown of Hyatt Funding Sources

The $6.7 million in city subsidies from the City of Long Beach's Tidelands Trust were to be used to build a pedestrian boardwalk, construct a public park, relocate the Rainbow Lagoon, provide utilities to the site, and construct and repair nearby streets.

The contract between the city and the Hyatt was very complex and the leasing negotiations were not completely finalized and signed until April 7, 1980, after numerous drafts and discussions. The city's projections on tax increments and sales taxes generated from the hotel speculated very high returns on the city's investment in the project. These high projections coupled with a high motivation to attract a first-class hotel led the city to agree to a very complicated lease contract. For example, the city expected the hotel to generate $513,000 in room taxes during its first year of operations.[80] Furthermore, the city anticipated 5 percent of gross operating income and 15 percent of net hotel income, in addition to the income from the parking structure and boardwalk—which would total more than $21 million during the first ten years of operation.[81] Along the same lines, Congressman M. Anderson stated that this project would "result in a net profit to the city of $4 million to $5 million per year."[82] Congressman Anderson additionally stated, "this project was the 'missing link' in the redevelopment of Long Beach."[83] However, none of these revenue projections were met, and by 1994 the hotel was in default.

[79] City Auditor, *Audit on the Hyatt Long Beach Corporation*, 20 February 1985.
[80] Independent Clippings, 12 December 1980 A-1:6.
[81] Independent Clippings, 17 September 1980 B-1:4.
[82] Congressman Glenn M. Anderson, 32nd Congressional District, Press Release, 2 October 1980. Congressman Anderson aided the city in obtaining the $3 million grant from HUD for the project.

Lease Terms

Most of the subsidies to the Hyatt can be found in the lease terms with the city. The table below lists the different leases and subleases that were executed before construction of the hotel began. Additional detailed information on the lease terms can be found in Appendix E.

- ***Basic Ground Lease:*** 50-year ground lease. The Hyatt was to expend $3 million in equity funds and obtain additional funding for construction of hotel.
- ***Basic Land Rental:*** The Tideland Fund of the City of Long Beach was to receive basic land rental payments of $200,000 per year (which is a ten percent return on the value of land to be leased).
- ***Percentage Rent:*** The city was to receive a percentage of rent equal to fifteen percent of the net cash flow of the hotel.
- ***UDAG:*** The city was to secure an Urban Development Action Grant for $3 million to finance public area improvements.
- ***Shoreline Improvements:*** The city was to start its Tidelands Capital Improvement Program to complete the lagoon, service roads and boardwalk.
- ***Public Facilities Lease:*** A 30-year term after opening of hotel. The Hyatt was to construct all public area improvements that include the ballrooms, banquet rooms, etc. which were to serve as extensions to the Long Beach Convention Center Complex.
- ***Lease Payments:*** The city was to lease all of the improvements from Hyatt Long Beach for $1.6 million per year. Lease payments were to be paid from the Tideland Operating Funds of the city.
- ***Public Facilities Sublease:*** A 30-year term after opening of the hotel. The city was to sublease to Hyatt a portion of the improvements constructed for the benefit of the city. The areas of sublease include the ballroom, banquet rooms, etc. Hyatt was to pay the city the sum of $1.6 million per year for the spaces contained in sublease.
- ***Parking Facilities Lease:*** The Hyatt was to construct a 1,258-car parking structure and lease this facility to the city. Five hundred spaces were for use in conjunction with the hotel, and the remaining 758 spaces were to support the Convention Center needs. Hyatt was to pay the full costs for the 500 spaces.
- ***Cooperation Agreement:*** Between the Redevelopment Agency and the City, which would provide financial support to the Tidelands during the start-up of the hotel. It provided that property taxes generated by the hotel would be paid from the redevelopment agency to the Tidelands Fund to cover shortfalls and to maintain the city's responsibilities as Tidelands Trustee for the State of California.

[83] *Ibid.*

There are two major components of the lease that need to be highlighted. First, if the Hyatt does not have sufficient operating income to make payments in a given year, payments can be deferred with ten-percent interest. Second, there are thirteen payment obligations that are to be paid by the Hyatt, with the city as the thirteenth in line. Insufficient operating income thus always guarantees that the city will not be paid.[84]

These lease provisions allowed the Hyatt of Long Beach to defer, year after year, debt obligations to the city that by 1995 totaled over $27 million—quite a different picture than the projected $25 million in revenue for the city. Due to the recession of the early 1990s, the new $110 million Convention Center expansion, and plant closures in the city, the Hyatt defaulted on its multi-million dollar loan in October 1994.[85] The magnitude of the debt was an incentive to prevent the foreclosure of the hotel by the principal loan holder, Mitsubishi Bank. The City of Long Beach and the Hyatt restructured a new lease agreement that allowed for the following:

- Hyatt agreed to invest $8 million in equity to upgrade the hotel to complement the new Convention Center.
- Mitsubishi agreed to reduce the hotel mortgage by $24 million to bring the loan in line with terms of its other loans.
- The city canceled its deferred rent in the amount of over $27 million. In return the city receives an up-front cash payment of $2.7 million.
- Beginning in 1996 the Hyatt makes ground lease rent payments of $242,000 per year plus 2.5 percent of hotel operating profit prior to debt service.[86]
- The city will receive an up-front payment at the closing of the restructured Mitsubishi Bank loan. The money the city receives will go to the Tidelands Operating Fund and not to the General Fund.

The Long Beach City Council approved the measure to forgive the Hyatt's debt on January 1995. In return the city received $2.7 million, less than 10 percent of the total $27 million the city invested on the Hyatt venture. This includes the improvement of public facilities such as streets and energy plant expansions to accommodate the Hyatt's

[84] Office of City Auditor, *City Hall Audit Report*, 20 February 1985. See Appendix E, pages 12-13, for specific contract information.
[85] Information obtained from various newspapers clipping reports on the Hyatt from the *Press Telegram*, the *Long Beach Business Journal*, and the *Downtown Gazette*.
[86] This new provision would now prevent the Hyatt from deferring any more debt obligations to the city. It now has to pay the city for the ground lease and the public facilities lease.

needs, the use of the Tidelands Fund and the use of 500 parking spaces. Henry Taboada, former deputy city manager stated, the city's lease with the Hyatt was an "inducement to get them here" because "the area was just dirt when we wanted them to come in."[87]

In the late 1970s and early 1980s the strategy in Long Beach had been to attract a hotel at whatever cost. The city's objective was to revive tourism in the area and attract out-of-town visitors to the city. Today, Long Beach has many first-class hotels in the downtown area; however, according to city planners, there continues to be a need for more hotels to accommodate the influx of tourists due in part to the opening of the Long Beach Aquarium, which was also a redevelopment project. The emphasis continues be placed on attracting visitors and capturing tourist dollars. As a result, the city continues to make Hyatt-like deals in order to attract more hotels to promote its tourism strategy. And, in case the venture falls through, the city will be there to pay for the mishaps and to ponder lost public investments. The City of Long Beach continues to shape the city as a "place for someone else."

Employment Outcome

In the City of Long Beach there are only two hotels which are unionized, the Queen Mary Hotel and the WestCoast Long Beach Hotel, the latter of which is represented by Hotel Employees and Restaurant Employees (HERE) Union Local 681. Union Local 681 represents hotel and restaurant employees in the entire region of Orange County and Long Beach. There are currently five classifications that are represented by the union at the WestCoast Long Beach Hotel: housekeeping, kitchen, maintenance, food and beverage, and front office. Pay scales range from $5.75 to $10.06 as of January 1, 1999.[88] All workers receive health benefits, vacation, and sick pay. It is unlikely that non-union hotels provide workers with these benefits.

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[87] *Downtown Gazette* 30 January 1995: "Long Beach Hyatt Gets New Lease on Life."
[88] Agreement between WestCoast Long Beach Hotel and HERE Local 681 for 1 January 1998 to 31 January 2001.

CONCLUSION

Long Beach has been successful in creating a core of tourist hotels and retail establishments that contribute substantial taxes from visitors to support the city's budget. By investing in tourism and retail to replace a disappearing manufacturing sector, Long Beach is effectively substituting lower-paying service industry jobs for lost manufacturing jobs. This economic development strategy may eliminate physical blight, but it does not relieve the problems faced by lower income people. In fact, it increases the number of people with low wages and no benefits. And even when these projects "pencil out," traditional cost-benefit analysis does not account for the higher demand for public services created by the increased number of low-wage workers. Despite its new high-end exterior, 28 percent of Long Beach children under five live in poverty.

Long Beach's ambition to become a destination City is also problematic. Tying a city's economic hopes to tourism and regional retail is risky. Tourism and big-ticket retail need good economies to be successful. This was demonstrated in the case study, with the Hyatt having to be bailed out during a recession. Thus, incurring public debt for industries that are highly dependent on a booming economy jeopardizes public resources during inevitable economic downturns. Also, Long Beach will be competing with many locations throughout the Southern California region (e.g., Hollywood, Santa Monica, Burbank, Orange County, etc.). Some locations will be successful, while others will not. And today's boom town may be a ghost town tomorrow. So what happens if Long Beach builds Queensway Bay, Pine Street Promenade, and three new hotels but no one comes? What if people come for only ten years when the debt service bonds are for thirty-year terms? Should not public resources go towards projects which more clearly and immediately benefit the community? Redevelopment should directly address the needs of local communities and seek to alleviate poverty, the true cause of blight.

What We Learned

Our cities provided us with numerous lessons. The older cities of Burbank, Long Beach, and Compton were forced to deal with the impacts of Proposition 13 on their revenues. Cities faced an immediate revenue loss that averaged 57 percent across California. Compounding this was the globalization and restructuring of entire sectors of the economy and the recession of the late 1980s and early 1990s, both of which caused widespread consolidation, relocation, and downsizing of industry. These powerful forces devastated the region’s well-paying industrial job base.

Lancaster, established immediately prior to Proposition 13, faced a different challenge. It did not receive property taxes, so it faced the prospect of having to subsist without a dependable source of revenue. As the population grew, it had to provide for its residents. Where would it locate the money for municipal services, affordable housing, and business development? How was it going to transform itself into a self-sufficient city from a bedroom community of residents who commuted long distances to work?

REDEVELOPMENT—THE APPROPRIATE RESPONSE?

Although the cities faced different situations, they looked to their most unique assets and to the tool of redevelopment to ease their fiscal problems. For Burbank, this meant looking to the movie studios which had located there not long after the city was founded. The city sought to continue on the path that it had started in 1970 of rebuilding a city for business. Long Beach looked to the water—the ocean and the port. Using these resources, it has tried to become a pleasure zone for tourists—a city for someone other than the people who live there. Compton leveraged one of its only assets—proximity to the MTA Blue Line. By structuring the Martin Luther King, Jr. Transit Center around this, Compton was able to bring in outside transportation dollars, which allowed it to further its goal of rebuilding the city for its residents. Finally, Lancaster leveraged its strongest asset—the vast acreage of land at its disposal. This asset has made Lancaster attractive to distributors and other businesses that require large amounts of square footage. City officials realized that attracting such businesses would facilitate its city-building goals. In contrast to Burbank, Compton, and Long Beach—which are building cities with particular groups in mind—Lancaster is just building a city.

With redevelopment, all the cities looked to the real estate markets to improve their fiscal picture. As a result, redevelopment officials often came to resemble developers rather than their colleagues in the municipal bureaucracy. From the desert to the beach, redevelopment officials shared at least one common goal: raising tax revenue. The revenue-generating projects of choice became hotels and retail, both of which offered the potential of sizable sales tax and TOT in addition to property tax increment.

Several unintended and significant byproducts of the need to generate tax revenue have been:

- The proliferation of low-wage, low-skill, and often part-time jobs which either lack benefits or have unaffordable benefits;
- The proliferation of retail big box development. Eminent domain, a formidable tool at the disposal of RDAs, has allowed RDAs to create inordinately large tracts of land. This development has also contributed to the decline of small retail business;
- An unbalanced local economy particularly vulnerable to historic economic cycles of boom and recession, causing an over reliance on specific sectors of the economy, such as retail and tourism, for tax revenues; and,
- The phenomenon of inter-city bidding wars. Developers, and not city officials, often drive the development process. Because many big boxes have regional markets rather than local markets and, as a result, restrict site locations, developers, knowing that cities are often willing to subsidize businesses which will produce large amounts of tax revenue, pit city against city in order to get the best deal.

Considering the large amounts of public dollars involved in our four case studies and the scope of the overall actions of the RDAs, we were surprised to find a lack of public accountability. We were often not able to get the kinds of data needed to analyze the agencies, e.g., public expenditures per project or breakdowns of expenditures by project type (retail, industrial, commercial). What information we were able to access was, in some cases, indecipherable to the average person, particularly the financial data. In other cases financial data was not specific to projects. Because the cities are not required to keep data longer than three to five years, older documents needed for the studies had often been destroyed. Agencies also lacked due diligence procedures necessary for a thorough analysis of projects, e.g., cost-benefit analysis or calculation of return on investment. Even where the deals may have "pencilled out," the need for tax revenue usually took precedence over other project impacts, such as the number and quality of jobs produced or other community-based needs.

We were left asking how the identified inequities both within and among our four cities can ever be reduced if redevelopment continues to be a primary tool that cities use to recoup revenue losses created by Proposition 13.

Recommendations: Strategies for Change

Each case study illustrates that underlying many strategy decisions by city managers and redevelopment officials is the fiscal environment of California cities. Because there is less revenue being generated by property taxes in the post Proposition 13 world, city officials have developed other means—like luring sales taxes and expanding redevelopment—to meet cities' fiscal needs. And although the purpose of raising revenue is to support the needs of community residents and fund city services, somewhere a disconnect seems to have developed. Strategies to raise revenues have brought with them a host of side effects—such as a proliferation of "big box" retail and hotel/entertainment complexes that generate tax dollars on the one hand and displace local businesses and produce low-wage jobs, on the other. While Proposition 13 may have sought to address one set of inequities, efforts to mitigate its fiscal impacts have created new ones.

The way cities operate needs to change. This report began with an investigation into the redevelopment practices of four cities in Los Angeles County. Redevelopment served as the lens through which we discovered the:

- unhealthy relationship between local governments;
- fiscal constraints in which municipalities operate;
- proliferation of redevelopment agencies in the State; and,
- development of strategies that favor the production of sales and bed taxes over good jobs and local needs.

What follows are policy alternatives that can address problems identified in this report. This section is not intended as a comprehensive list of all possible solutions to the problems with redevelopment. Instead, we present a list of recommendations which we find compelling and hope to start a statewide conversation about how to reform redevelopment and make municipal finance more sane and sustainable. Thus, where groups are already engaged in work around specific policies, they are identified, and contact information is provided in Appendix G.

REDEVELOPMENT REFORM

- Connect redevelopment to people's needs by requiring RDAs to address issues of job quality, community amenities, and public space.
- Redefine and quantify the definition of blight so that it will not longer be possible for a moderate-income city like Lancaster, for example, to have half of the city designated as a redevelopment area.
- Balance redevelopment portfolios to include better jobs, more diversified strategies and less dependence on large-scale retail and hotel development.
- Redistribute tax increment surplus so that there will never be a "glut" of development in any one geographic area and to ensure equity since more communities would share in the success of a redevelopment area.
- Tie subsidies to job production and evaluate the quality of jobs as a criterion for public investment in a project.

Monitor RDA Performance

- Establish a statewide oversight commission that would:
  1. Approve both the establishment of new project areas and new projects within project areas, and take into consideration the needs of the community;
  2. Ensure that agencies adhere to both the spirit and letter of the law, particularly in relation to blight, and that redevelopment is not merely a tool for generating taxes;
  3. Review specific current "blighted" project areas within RDAs statewide, to assure continued compliance with stronger standards of blight.
- Establish consistent and comprehensive standards for record-keeping for all redevelopment agencies in the state to support oversight and evaluation. Common formats for computerized record-keeping should be developed. Once these mechanisms are in place:
  1. Extend the time limit, from three years to five or ten years, after which records should be destroyed, or store all records electronically;

2. Increase agency disclosure and subsidy disclosure through more rigorous reporting. Reports must be made decipherable to the layman (in particular those sections that pertain to financials), and should include useful information, i.e., how much cities spend on different types of projects (retail, industrial, etc.) and what projects are currently in progress in a particular city. Subsidy information by project should be easily accessible—the public has a right to know where its money is going.
3. Verify that low-income housing set-asides are being strictly adhered to. Implementation of any of these practices might be financed by a small portion of an agency's tax increment.

***For More Information*:** Legislative Analysts Office: "Redevelopment After Reform: A Preliminary Look"

REFORM PROPOSITION 13

- Split the tax rolls, allowing the County to tax non-residential properties at higher rates. For those non-residential properties that lie within redevelopment areas, return all tax increment to the local jurisdiction.
- Close existing Proposition 13 loopholes.
  1. Review the parent/child (and grandparent/grandchild) transfer of homeownership, which allows a property to be transferred from one party to the other without the property being reassessed. Allow the transferee to forego reassessment for ten years. At the tenth year the property would then be assessed to market value. Provisions should be made for low-income homeowners to delay payment of the increased property taxes until death or sale of the property.
  2. Review the concept of a legal entity's ownership (corporate or partnership). Current interpretation of statutory language allows some businesses to forego reassessment after a sale with claims that the legal owner has not changed.

INCREASE LOCAL CONTROL OF TAXES AND OTHER REVENUES

- Revamp current local property tax-sharing formulas. Today, for example, Los Angeles receives 32.7 percent of all County property taxes collected within the city, the same percentage it received in 1975. This formula, determined by Assembly Bill 8 (AB8) in 1979, is outdated because it ignores any changes in ownership trends, demographics, and needs of cities; increases in property values; the incorporation of new cities that may have occurred in the intervening time; and the fact that the 1975 percentages were based on a tax rate that each locality had control over (but no longer does) and that fluctuated each year (but no longer does).

  For More Information: Speaker's Commission on State/Local Government Finance

- Return tax allocation decisions to the local level where they resided before Proposition 13. Whereas property tax allocations were once decided at the local level, the State now makes all such decisions. This sets up an adversarial relationship between the players such as county and city.

  For More Information: Speaker's Commission on State/Local Government Finance; California Constitution Revision Commission; Legislative Analyst's Office: "Making Government Make Sense"

- Give localities discretion over how to allocate property taxes. After Proposition 13, the State tried to fill in the shortfall that many localities had been left with, since when property tax revenue suddenly dropped 57 percent. The State continues to fund localities with money that is specifically earmarked for certain program areas, even if this is not an area of importance to a specific locality (i.e., certain funds must go to law enforcement, others to transportation, etc.). Much of the funding that the cities and counties get from the state is restricted in this way, which means that funds often cannot be spent in areas where there may be the greatest need.

  For More Information: Speaker's Commission on State/Local Government Finance; San Diego Association of Governments (SANDAG); California Council for Environmental and Economic Balance

PROMOTE TAX-SHARING BETWEEN CITIES

- Reduce inequities between cities by implementing regionwide property tax sharing. This has been considered in some regions in California. It has been successfully implemented in Minneapolis-St. Paul which entered into such an agreement in 1971. Today 20 percent goes into a common pool that is then redistributed on a per capita basis. It is estimated that, had this policy never been instituted, the gap between the richest and poorest in that region would be 22:1 instead of the current 4:1 ratio.[89] A sharing arrangement in LA County would bridge the gap between rich cities like Beverly Hills, which earned $412 in property taxes per capita in 1995-96, and poor cities like Compton, which earned just $44.

- Remove the incentive for cities to pursue sales tax and participate in bidding wars.
  1. Allow sales tax sharing. Municipalities' reliance on sales tax often causes them to lure prospective companies to their locality by offering large public subsidies. These practices have harmful implications for both the "winner" and "loser," and the region as a whole bears the burden through the impact on transportation, land use, and a host of other issues. A proposed California constitutional amendment would allow cities to share sales tax revenue with other cities.

     For More Information: Assemblyman George Runner (R-Lancaster); State Capitol, Room 6027, Sacramento, CA 94814; (916) 319-2036.

  2. Enlarge the percentage of sales taxes returning to cities and implement countywide sales tax sharing. First, increase the 1 percent allocation that cities currently get from state sales tax to 2 percent. (Of the 8.25 percent California sales tax rate, LA County cities only receive 1 percent, with the rest going to the state's general fund or the County.) Then, set up a countywide pool of the additional 1 percent and distribute it to localities *on a per capita basis*. This would give cities a stream of revenue over which they would have 100 percent control, carrying with it no restrictions. More importantly, it would reduce the

[89] http://freenet.vcu.edu/civic/organ/rich-first/ricfirev.html

incentives for bidding wars, since a big box that located in Compton would be just as useful to Long Beach as one locating in Long Beach itself.

For More Information: San Diego Association of Governments (SANDAG); California Council for Environmental and Economic Balance

RAISE THE MINIMUM WAGE STATEWIDE

The by-product of pursuing retail development is the creation of low-wage, low-skill jobs, many of which do not pay a living wage.[90] While living wage legislation will not reduce the incentive cities currently have to pursue development in the retail sector, it would at least allow those workers employed in these service-sector industries to live above subsistence level. And as the standard of people's lives increases, so too does their discretionary spending (and hence the city's tax coffers), while their use of other government services such as food stamps and Medicare declines.

For More Information: Los Angeles Alliance for a New Economy

[90] The Living Wage in Los Angeles is currently $7.37 with benefits, $8.64 without benefits.

AGENDA

For Use as a Stand-Alone Popular Education Piece on Proposition 13 & Redevelopment Agencies

I. The Play: “The City of Fallen Angels & its Tale of Post-Proposition 13 Woes”

II. Full group discussion with facilitator.
Use slide presentation to guide discussion. See Appendix H.
Present slides on butcher block paper, overheads, or power point.

III. Break into small groups to further explore main points of slides.
“Reporter” for each group should takes notes.

IV. Entire room reconvenes and each group “reporter” reports to group at-large on salient points, all written on butcher block paper, or on overheads.

V. Room discusses next “actions,” “studies,” etc. they may wish to take.

The City of Fallen Angels & its Tale of Post-Prop13 Woes

CAST: Announcer/State Representative
City Manager, City of Fallen Angels
County Representative
City of Fallen Angles Unified School District Representative
Joe Retired Taxpayer
Joe, Jr.
Josephine, wife of Joe and Mom of Joe, Jr.

SETTING: 1978 to the present. The *audience* off to the side SIT neatly in rows and EAT from bags of popcorn (casually or nonstop). They are: *Joe, Joe, Jr. and Josephine*. Their heads WHIP from person to person; they show joy or horror as each story unfolds. Joe occasionally *interrupts* the Announcer.

LOCATION: The Offices of the City Manager of the City of Fallen Angels.

Announcer HOLDS in front of "him" a very large bulletin board. On one-half of it is a mock *pre*-Proposition 13 *property tax bill* ~ the bill for *the home of Joe Taxpayer.*

SEATED around a large desk are three fatcats — the City Manager of the City of Fallen Angels, the County Rep. & the FAUSD Rep.

They PUFF on pink bubblegum cigars and WRITE 1'x2' checks:

- City Manager: "Parks and Recs"; "City Libraries", "Bldg. & Street Maintenance"
- County Rep.: "L.A. County Sheriffs"; "County Hospital", etc.
- FAUSD Rep.: "your local high school", "your local elementary school".

All three HUM and TIP their hats or WAVE as *Announcer* INTRODUCES them.

SIGN in front of FAUSD desk *reads:* "CA Schools: #5 in the USA.".

Announcer (like a radio-announcer), READS from a clipboard:

The Year: 1978.
The Place: The offices of the City Manager of the City of Fallen Angels. The representative of the Fallen Angels Unified School District, the County of Los Angeles, and last but not least, the City Manager of the City of Fallen Angels.

Hi'ya fellas! I see 'yer takin' care of buz'ness!

The workings of governance *hum* along! Oh, but there's trouble in the City of Fallen Angels…The homeowners are fed up, and aren't going to take it any longer! They've been yelling about things for 'most 30 years!

Joe, popcorn flying he is so upset, interrupts.

We were paying for these things…through property taxes. (points to his nose). Through our noses!

Announcer tries to wave Joe off and proceeds:

Homeowners got sick and tired of taxes rising as fast as the value of their homes!

Joe can't control himself. Joesphine NODS her head "yes" to all Joe says.

You said it, Buddy. We got tired of local politicians setting the tax rate. We organized. Did we ever! Thousands of us. For years and years.

Joe PICKS up a huge, yellow stop sign that reads: **Proposition 13**.

Announcer PICKS up a huge rock and DROPS it on the floor. Dust FLIES in front of the desk.

Finally, got what you guys wanted. 'Commercial property owners, too. Boy, they were along for the ride and a good one it was for 'em.

The cigars DROP out of the mouths of the 3 public officials at the SAME instant that the Announcer PINS (to the other half of the bulletin board) a post-Prop. 13 property tax bill that shows the huge drop in annual property taxes.

Announcer SITS at a desk close by, PUTS a bubble gum cigar in his mouth and HANGS the sign "State" from his neck.

Those homeowners, 'specially the older ones, put the quietus on property taxes: one percent max. Set the value of the home at the date you bought it. Better yet, if you bought the place by 1978 you got a 1975 value. After that, assessments could only rise 2% a year. No more. (*Puffs up.)*

Gave the State control of the money!
Set a formula for how much a locality could get in the future.

County guy HAS LOOSENED his tie, sets his hat back on his head, THROWS the pen in the trash can & TURNS to the State man.

Gimme' a dime, Mister. Got to keep the place safe, got to keep the folks healthy and housed! How? This Proposition took away over half of my income!

(*scratches his head)* Got to float bonds. Tie 'em to the properties. It'll add to the debt (*STACKS up bricks labelled "debt" to 7' height)*, but got to pay for 911.

Joe JABS at the air with his yellow stop sign.

Not so fast buddy, boy. You need 2/3's of us voters to vote *yea* for your fat bonds!

County man abashedly UNSTACKS some of the bricks).

Man, oh man. (puzzled) Got it! Special assessments, that's the trick: street curbs and mosquito abatement and flood control! *(TACKS* ***assessments*** *onto the new property tax).* Tack those on to the property tax. A dollar here. A dollar there. No one'll notice after they vote 'em in!

FAUSD lady PULLS out a huge jar of jellybeans, starts eating them maniacally. She MARKS through the number on first sign so that it READS: California Schools: 41st in the USA.

L.A.'s Ellis Island. More kindergartners. More languages. Less money! A lot less! What d' they take me for? A magician??

City Manager, since the dust first cleared, has been WEEPING. He has run through an entire box of Kleenex. He stops, looks at the audience, tries to regain his dignity, straightens his tie, dons a dealer's shade, hunkers down & nervously SHUFFLES deck of cards. He still OCCASIONALLY WEEPS.

More ways than one to skin a cat!

Opens a huge book called "Tax and Fee Ideas for Desperate City Managers".

I have more choices than the other poor bloaks! (*THUMBS through book.)* Uh huh! Not pretty but it'll work. (*frenetically*

DOG-EARS pages.) I'll add user fees, and transient taxes and…sales taxes! Perfect! Sales! Always wanted to go into sales! Yep! Gimme 20 years. We'll have the libraries back up and the pools back up. (*figures away)*. We'll just sacrifice one generation of Fallen Angels kids. Not so bad!

(FAUSD lady, horrified) Holy cow, mister!

(City Man. Ignores her. Ruminates) Redevelopment agencies! That's the ticket! Supposed to address "blight". They can do that, *too*. We got blight. Goodbye manufacturing jobs, hello blight!

But bring on the big box: Home Depot, Home Base, uh, run out of homes. *(THUMBS through more pages.)* Lez'see: CostCo, Price Club. Love those theme names. Bring on the hotels! Hyatt, Hilton, Hank's $7 dollar-a-night. Nah. Forget Hanks!

Let's see some retail action! Long as the economy's good, we'll be rolling in dough. I bet we get some jobs out of it, too. Oh, I love it, I love it.

(City Man. drums his fingers) Here's a good one: Huntington Beach gave those vending rights to Coca Cola! I'll do the same with my poor neighborhoods. I can see it now: Pfizer Pico Union, lez see, gotta rhyme: Southwest Airlines South Central, um, Intel Inner City.

Oh, yea, I'm on a roll! Just stay away from Philip Morris an' I'll be ok. We can print up t-shirts an' coffee mugs an' whatever it takes! Public'll love it. Go baby, go!
(light goes off). Oxnard had a great idea: Domino's Pizza ads on the police cars. Peace at a price. Wonder why it didn't fly?

County guy pulls his pockets inside out and starts crunching up papers and throwing them at the State and at the City Manager.

The best came in '91. The State said: Hey, Counties, take over all the public health and all the mental health and all the indigent health! I asked 'em where the money tree was. "You'll find it." Yea, our health care system went bellyup in '95. Mr. State man, you had to bail us out!

(*County guy turns to Joe, Joe Jr. and Josephine.)* What 'd'ya' think about these apples? You're Joe the retired taxpayer, you're

Joe, Jr. the student, Josephine, you own a home here and you work here. How 'er things on your homefront?

The family turns to the real audience in unison and timidly rise.

I'm Joe the Taxpayer. I sure like those new property taxes. I know what next year brings. Funny, though, how the city changed.

(Joe, Jr. pipes up) No kidding, Dad. Parks closed. Libraries barely opened. Swimming pool closed. No textbooks. School bathrooms stink, Dad.

(FAUSD lady hides her head) Don't look at me! When the State finally coughed up almost $4 billion in property taxes, what do you fix first, the roof or the bathroom or the A.C.?

(County man) Yea, that was great. 1992. The State took *more* money away from me and the cities and those special districts for the Schools! This is a sorry state of affairs: pitting school money against health money.

(*Joe, like a referee in a baseball brawl)* But I got to have my low property taxes. Got to! I'm retired, and I live on my fixed income. Josephine helps out, bless her.

(Joe muses) Don't know what to make of the City. Other day, had a leak in the sink. I used to hop over to Brownie's for my parts. Brownie's…Closed down. Shuttered. Bulldozed! I shop at this big store now! They got everything, at a low price, too. Josephine landed a job there. She can tell you all about it, hey, Josephine?

(*shy Josephine)* I got a job at the hardware store, big box. Parking lot's half the town! City threw in the kitchen sink to get 'em to build here. With all those subsidies you'd think my pay would be ok. No sir! Pay is skimpy. And no health insurance. Little Joe, Jr. and I are supposed to go to County when we're sick. I'm supposed to get all of these fancy checkups now that I'm 50, but…

(County man) She said it. By the millions, they're coming to us for health care. The millions! (*turns to City Manager)* Do any of these new jobs your redevelopment agency is supposedly creating offer benefits? That reminds me! I have a bug with the redevelopment agency. Those guys pocket the property taxes their projects generate. I need those property taxes.

(FAUSD lady STANDS UP.) You and me both. We *really* need those property tax funds! Answer us, do those jobs pay? Do they give benefits? Do they educate kids?

(FAUSD and County man in unison) We're getting swamped!

City Manager, alerted.

Swamps, did someone say swamps? I'll give Developer Dan a ring. *(DIALS number on phone.* PLACES HAND over mouth piece and ADDRESSES audience). This guy can develop anything: swamp, flood plain, fault. Give him a good wetland. He'll *improve* it! (*into phone)* Developer Dan not in? Tell him to call City of Fallen Angels.

City Manager has PUT cigar back into his mouth & also HUMS.

Hey! I got the revenues back up. Fundraising, that's my job. We got lots of new jobs. So, they're not like the heavy-duty manufacturing jobs. Benefits, schmenefits. Don't talk to me about health care.

City Manager WALKS "Tax and Fee Ideas for Desperate City Managers" over to County Manager.

Friend, sorry for ya'. But, uh. I did my work. You do yours!

State man PUTS on the black robe and the white wig of a judge.

Friends and foes, taxpayers and taxmen, bureaucrats and bunglers, you've heard this tale of wonder and woe. It is now up to you to investigate and to implicate, to add and to multiply, to otherwise raise a racket or go off to your corners.

Is this picture right? Does somebody need to ask some new questions?

How's your City and your County and your local school? How's your job and the overall quality of your life? *Do you know where your property taxes are tonight?*

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