

Review of Redevelopment Agencies in Santa Cruz County

Background

Redevelopment agencies (RDAs) grew out of the federal urban renewal programs of the 1940's. While RDAs were first authorized in California in 1945, over half of the RDAs in the state were created after the passage of Proposition 13, which limited growth in property tax revenues. By 1998, there were 351 active RDAs, mostly created by cities, with over 700 project areas. Today 80% of all cities and 47% of all counties have an RDA for a total of 384 RDAs throughout the state.

While RDAs are theoretically independent agencies, in practice, they are completely controlled by the jurisdictions that form them. Their purpose is to provide a method of financing local redevelopment projects to alleviate blight in urban areas. Once an RDA is formed, it can declare areas within its jurisdiction as blighted and then include them in its designated project areas.

RDAs are financed through what is called "increment financing". Once an RDA forms a project area, most of the increase in property tax revenue in that project area goes to the RDA. The RDA receives this increment for the life of the project. The term of the project area and the goals to be accomplished in that time are identified in its implementation plan. State law limits each project area to a term of no more than 40 years. Without RDAs, the increase in property tax revenue would be distributed to the county, the city, and the areas schools and special districts.

In California, RDAs currently receive over 8 percent of all property taxes collected in the state every year. Originally, RDAs received all of the increase in property tax revenues collected in the project area. In response to criticism from local governments, the state allowed jurisdictions to negotiate with RDAs to share a portion of the increment. Traditionally, these "pass throughs" amounted to about 14% of the increment, with a third of that percentage going to county governments. Schools however, had no incentive to negotiate "pass throughs" because the state reimbursed schools for any revenue lost to RDAs. Most of the current RDA project areas in Santa Cruz County were organized under these rules. In 1993, in response to continuing criticism, the state passed AB1290 that set a uniform "pass through" rate of 33% for all new project areas.

RDA increment revenue is not used to fund redevelopment projects directly. RDAs are first required to incur debt, usually by issuing bonds. The borrowed funds are then used to complete RDA projects and the incurred debt is then paid off using the increment revenue diverted from other uses. In this way, future RDA revenue is leveraged to allow projects to go forward earlier in the term of the project area. In addition, many RDAs have become adept at leveraging RDA funds to obtain additional funding through federal and state grants that increase the overall financial impact of the RDA in its project areas.

Proponents of RDAs say that they allow government to do what private enterprise cannot. For instance, chronically depressed areas are generally not attractive to business developers. With significant RDA investment in basic infrastructure, community beautification, and business

assistance, the area can become much more attractive. This results in business recovery that would not otherwise have happened. Additionally, RDAs can use their power to acquire property through eminent domain to assemble small parcels into larger properties in order to entice large retailers and other commercial users to relocate in older developed areas. Finally, since RDAs are required by law to divert 20% of their revenue to the development of affordable housing, significant revenues are set aside for this purpose that would not necessarily be allocated to this use by the local jurisdiction.

In sum, RDAs redirect a significant amount of property tax revenues to redevelopment projects. This provides the jurisdictions in which they are formed with a greater share of the property taxes to which they would otherwise not have been entitled. Additionally, they allow for the issuance of bonds without voter approval and provide extended powers of eminent domain to facilitate large developments.

Criticism of RDAs¹

While the laws governing RDAs have been overhauled periodically, critics still remain. For example, many critics charge that, while the intent of an RDA is to do what private industry cannot do, in practice, what they sometimes do is force private property owners to do what local governments or large developers want them to do. The use of eminent domain by local governments is normally limited to the taking of private property for public use. However, the expanded powers of eminent domain granted to RDAs allow for the forced transfer of private property from one private party to another.

Many critics also complain that a redevelopment “industry” has arisen around these structures that actually instructs developers in how to “extort” concessions in the form of “corporate welfare” from local governments.

More importantly, critics charge that developments pursued with the cooperation and assistance of an RDA are often relieved of such planning requirements as impact fees or given lucrative tax exemptions that give them a significant advantage against private businesses already located in the area. Additionally, this allows for significant interference by local officials in development in the local market. Politically “connected” developers can be supported while “politically incorrect” projects are left to work their way through the normal planning process²

¹ A good presentation of the case against RDA can be found in Redevelopment: The Unknown Government published by Municipal Officials for Redevelopment Reform, August, 1998.

² A further example of the extent to which local governments can micromanage development can be seen in the recent plans proposed for the Skypark town center development in Scotts Valley. This significant portion of the town center is controlled by the city itself. The plan for its development, commissioned by the city, identifies the type of structures to be located on each parcel and even identifies the specific use to which some of the structures are to be put such as a coffee shop, flower shop, and newspaper stand.

Additionally, while the term “blighted” was intended to apply to previously developed areas in need of renewal, many RDAs include within their project areas large tracts of undeveloped vacant land. Many jurisdictions have also been charged with creating RDAs in prosperous areas which are not really “blighted”. The statutory definition of “blighted” is quite broad, but some jurisdictions have included districts that are clearly not within the plain meaning of the word.

In theory, since RDAs are financed through the growth in property values in its project areas, it essentially pays for itself over the life of the project. However, general economic trends could also be contributing to the increase in property values. RDAs do not generally evaluate projects for their specific effect on property values, so no actual numbers are available to evaluate their performance. However, current estimates are that RDAs are responsible for, on average, one half of the increase in property values.

Finally, because of the requirements of the increment financing system, incurring debt is actually a requirement of the RDA system. This, critics charge, has led to a dramatic expansion of public indebtedness in recent years as jurisdictions use RDA financing for development projects they could not otherwise afford.

Scope

In conjunction with its investigation of the revenue effects of land use decisions the Grand Jury sought to examine the role played by RDAs in this process and to perform a general review of the current operations of each of the local RDAs.

Fieldwork

To perform its examination, the Grand Jury conducted numerous interviews of local government officials from each of the five local government jurisdictions including:

- Elected Officials
- City Managers
- Planning Department staff
- Redevelopment Agency directors
- Economic Development Department staff

Additionally, the Grand Jury interviewed local business leaders and development consultants. The Grand Jury also relied on numerous local newspaper articles, web resources, and planning documents to prepare for these interviews and guide our investigation.

Findings

1. RDAs are intended to generate funds for redevelopment projects in blighted urban areas.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

However, Section 33030 of California Redevelopment Law (Health and Safety Code) provides the definition of blight, which includes both physical and economic blight, and includes situations such as inadequate public improvements, lack of parking among many situations, and others which lead to economic decline.

Response: City of Scott Valley AGREES

Response: City of Watsonville AGREES

2. Because RDAs generate significant additional revenue, many local governments are tempted to form RDAs in areas that do not fit the intended purpose of an RDA or to expend such funds on projects that only tangentially serve the purpose of relieving urban blight.

Response: Santa Cruz County Board of Supervisors

Without further information, the County can neither agree nor disagree with this finding.

Response: City of Capitola DISAGREES

The City of Capitola created a Redevelopment Agency and is in the process of expanding the project area of that agency for purposes that are consistent with Redevelopment Law. The City of Capitola uses the proceeds from its RDA in a manner that best serves the City of Capitola and that is completely consistent with Redevelopment Law. The City of Capitola does not know whether the uses of RDA funds in other jurisdictions do not fit the intended purposes of an RDA, nor whether the projects of other jurisdictions only tangentially relieve urban blight.

Response: City of Santa Cruz DISAGREES

The City of Santa Cruz' RDA projects meet the definition of blight as set forth in the legislation. AB 1290 was adopted by the State Legislature in 1994 and SB 211 in 2001 to curtail redevelopment abuses. SB 211, in particular, gives the State Attorney General the power to seek legal action in the adoption of redevelopment projects which do not follow the prescribed legal procedures or have inadequate findings of blight.

Response: City of Scotts Valley DISAGREES

Scotts Valley disagrees since we have no knowledge of other agencies reasons for forming RDA's. In the City of Scotts Valley, the Redevelopment Agency was established for a specific purpose in a blighted area. Many of those projects were to improve the infrastructure such that economic development could occur, thus eliminating the blighted conditions.

Response: City of Watsonville DISAGREES

The City and Agency uses its redevelopment funds to relieve economic and physical blight. Language in AB 1290 has eliminated any ambiguity that may have existed in the past in the specific requirements governing what conditions are required in order to declare an area blighted.

3. The county and all four cities in Santa Cruz County each have their own RDA with one or more project areas.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

4. The county RDA includes the largely residential areas of Live Oak and Soquel and concentrates on improvements to neglected residential infrastructure such as streets, bridges, sidewalks, and trees. The county has numerous large fully developed residential areas. Because it lacks the corresponding commercial areas usually found in city centers, the county does not have the revenue base required to provide infrastructure improvements in these residential neighborhoods. The county has turned to an RDA in Soquel and Live Oak to, at least partially, solve this problem. In fiscal year 2001/2002, the RDA generated \$9,854,577 in increment for capital projects and \$3,254,876 in increment for affordable housing projects. The RDA is expected to complete its projects sometime between 2015 and 2020.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

The County's projects have served to improve infrastructure for both the residential and commercial areas. While expanded commercial areas could serve to increase tax revenues to support services to the Live Oak and Soquel areas, it is unlikely those revenues would also support the cost of upgrading the area's infrastructure. Under the current redevelopment plan, the Agency has until 2027 to complete its projects.

5. The Scotts Valley RDA includes the main city corridors of Scotts Valley Drive and Mt. Hermon Road and concentrates on improvements to traffic flow in this area. Significant improvements have been completed which have transformed a small town's main street into the necessary traffic route required to support recent growth and development. Another priority has been the purchase of a large parcel on Mt. Hermon Road for future development as a Civic Center and retail complex. RDA funds have also been used for the construction, renovation and preservation of historical and government buildings such

as the Hollins Stables Barn near the Borland Complex. In fiscal year 2001/2002, the RDA generated \$989,309 in increment for capital projects and \$663,693 in increment for affordable housing projects.

Response: City of Scotts Valley AGREES

6. The Santa Cruz City RDA has two project areas which encompass nearly all of the commercial areas of the city. Traditionally, the RDA was concerned with flood control and the rebuilding of the downtown shopping area after the 1989 Loma Prieta earthquake. Recently, they have expanded their projects to include:
- major improvements to Mission Street, the major traffic route on the west side of the city
 - general business promotion and street improvements in the eastside business district
 - transformation of industrial areas along River Street and in Harvey West to large store retail use
 - renovation of the Del Mar Theatre

The RDA has been working to develop an arts center in the historic Salz Tannery property, which is located along River Street north of Highway 1. In fiscal year 2001/2002, the RDA generated \$3,920,501 in increment for capital projects and \$1,980,987 in increment for affordable housing projects.

Response: City of Santa Cruz AGREES

7. Most RDAs finance their operations through bonds to be repaid through increment financing. The City of Santa Cruz RDA is almost entirely funded through loans from city enterprise funds and a \$1,000,000 loan from the city's Community Trust. This is a practice not available to county governments. RDA officials assert that significant savings are realized through this practice because of the high costs associated with issuing and administering RDA bonds.³ However, these enterprise funds are collected from ratepayers for the purpose of providing services such as water and sewer facilities. Theoretically, they are intended to be held for some time in order to finance future capital improvements or emergency repairs. However, it is not clear that ratepayers are generally aware of this practice. City officials left us with the impression that they had not considered what would happen if the enterprise fund suddenly needed access to its reserves. Presumably, repayment terms would be governed by the documents associated with the loans. When questioned they responded "Well, I guess we would have to pay it back."

Response: Santa Cruz County Board of Supervisors

³ The City's Community Trust was created from funds generated by the sale of the city owned Skypark Airport property in Scotts Valley. City officials commented that an added advantage of this arrangement was that it prevented the city from spending the money thus preserving it for future generations.

This finding concerns the City of Santa Cruz Redevelopment Agency. The County has no knowledge of issues related to this finding.

Response: City of Capitola PARTIALLY AGREES

Redevelopment projects are frequently financed through debt. The activities of the City of Santa Cruz RDA are beyond the jurisdiction of the City of Capitola.

Response: City of Santa Cruz DISAGREES

The City of Santa Cruz disagrees with this finding particularly with respect to the statement “is almost entirely funded through loans from City enterprise funds and a \$1,000,000 loan from the City’s Community Trust.” With respect to an explanation on the RDA’s borrowing activities, please see below.

- a. The RDA has one loan from an enterprise fund—the Water Fund—which has a current outstanding balance of \$45,851, the background of which is explained in Recommendation #3 on Page 8. This loan pays interest to the Water Fund at an interest rate set by the City Investment Portfolio, which is the same rate these monies would earn in the Water Fund. The loan at current interest rates will be repaid in seven years.*
- b. The loan from the City Council Trust Fund is for the Mission Street Undergrounding Project and was approved by the City Council and RDA at public meetings. The funds in the City Council Trust Fund have been derived from the sale of City-owned real estate. The City Council Trust Fund has no relationship to any of the City’s enterprises.*
- c. The major debt instrument of the Merged Project is a Tax Allocation Bond originally issued in 1989 and refunded (refinanced at lower interest rates) in 1996 in the amount of \$4.2 million. The bulk of the RDA’s other debt instruments as reported on the annual Statement of Indebtedness filed with the County Auditor are obligations through Owner Participation Agreements and Cooperation Agreements with the City of Santa Cruz.*

Response: City of Scotts Valley GENERALLY AGREES

However, we are unable to comment on the City of Santa Cruz RDA and their loans through the enterprise funds.

Response: City of Watsonville NEITHER AGREES NOR DISAGREES

The City of Watsonville doesn’t have the information necessary to comment of the Santa Cruz RDA’s method of funding its projects.

8. The City of Capitola RDA encompasses the retail areas along 41st Avenue between Highway 1 and Capitola Road. Historically, the RDA has concentrated on the development of the commercial areas located along 41st Avenue. Recently, they have had difficulty identifying suitable projects. Currently, they are discussing the renovation of the Rispin Mansion into a bed and breakfast inn. In fiscal year 2001/2002, the RDA generated \$707,943 in increment for capital projects and \$351,390 in increment for affordable housing projects.

Response: City of Capitola PARTIALLY AGREES

The initial focus of the Capitola RDA was on the 41st Avenue area, including RDA action to provide for Clares Street between 41st Avenue and Capitola Road. The City Council disagrees with the statement that the Capitola RDA has had difficulty identifying suitable projects. Redevelopment increment has been used to provide ADA accessibility improvements within the project area, has been used to develop 31 new units of very low income housing, and has allowed the Loma Vista Mobilehome Park to become resident-owned. Possible road/bridge improvements to address traffic congestion along 41st Avenue are currently being studied. Affordable housing needs continue to be of major concern to the City Council. It should also be noted that in fiscal year 2001-02 \$484,353 of the capital projects tax increments was used to pay debt service for qualifying redevelopment projects and activities that have already occurred.

9. The Rispin Mansion Project is of particular note. The mansion is a decrepit, 1920's-era home located on a six-acre parcel in the City of Capitola outside of the original RDA project area. This run down structure has been vacant for decades and has, by latest reports, been the subject of 140 police calls over the last year. The City bought the mansion in 1985 and since 1997 has been in negotiations with local developers to remodel it into a bed and breakfast. Recently, the City has proposed selling the property to its RDA for \$1.35 million. Ostensibly, this is to facilitate redevelopment of the property, but it is unclear why these efforts would require RDA ownership of the property since other projects do not. However, the sale has other advantages. For example, the city proposal does not require the immediate payment of the purchase price. Instead it proposes the RDA pay interest on the debt at 8% providing the city with over \$100,000 annually in additional revenue, with the principle to be paid in a lump sum prior to June of 2017. Presumably, this debt and the interest payments it generates would be paid for with increment financing.

Response: City of Capitola PARTIALLY AGREES

The Rispin Mansion is an important historical asset to the City of Capitola. The reason it is necessary to sell the property to the RDA are several: 1) the preservation of this blighted property is the business of an RDA and should not encumber the limited resources of the city's general fund; 2) because the curing of blight is the proper business of the RDA, the impacts from current blight such as vandalism, fires, trespass and issues of liability are also the province of an RDA. To accommodate these two goals requires RDA ownership of the property. The sale has been approved by the RDA Board and City

Council in exchange for a note in the amount of \$1.35 million and at an adjustable interest rate at the current rate of 5%.

10. Since the Rispan property is not located in the current project area, the city will be required to amend its project area or create a new project area with sufficient increment to support the project. Presumably, since the Rispan property is owned by a local government agency, it will generate no property tax at all, so it is hard to see how it will generate sufficient increment on its own to support the any desired projects.

Response: City of Capitola PARTIALLY AGREES

The meaning of this finding is unclear, but the facts are these: a) The Rispan property is currently in an amended preliminary project area, with the intent to amend the original project area to include the Rispan property; b) Once the project is developed the RDA has the option to lease or sell the property. If the property is sold, tax increment will be generated. If the property is leased, tax increment will also be generated through the possessory interest tax process.

Response: City of Watsonville NEITHER AGREES NOR DISAGREES

The Rispan property is not within the Watsonville City Limits.

11. Many RDAs hold property or the rights to income from property such as rents or, in the case of the Rispan proposal above, the right to collect the transit occupancy tax generated by the property. These revenues generally show up as income to the RDA. However, in the case of the City of Santa Cruz RDA, they appear as a deduction to RDA administrative costs.

Response: Santa Cruz County Board of Supervisors

This finding concerns the Santa Cruz City and Capitola Redevelopment Agencies. The County has no knowledge of issues related to this finding.

Response: City of Capitola PARTIALLY AGREES

The right to collect transient occupancy tax is solely that of the city (or county), not the RDA. Such revenues must by law show up as income to the city (or county). The City of Capitola has no knowledge of the City of Santa Cruz's accounting practices.

Response: City of Santa Cruz DISAGREES

If any rental income is received, it is booked as such and reported that way on the appropriate State forms. As of the Fiscal Year 2001–2002, there was no rental income received by the RDA. The lease agreement on the Del Mar Theatre, which was effective in Fiscal Year 2002–2003, provides for the lease payments to be placed in a reserve fund to be used for building improvements.

Response: City of Scotts Valley AGREES

Response: City of Watsonville NEITHER AGREES NOR DISAGREES

The Rispin property is not within the Watsonville City Limits and we can't comment on another agency's specific method of accounting for expenses.

12. The City of Watsonville RDA encompasses the central downtown business district and the west side industrial area of the city. It has been significantly expanded in recent years to add 1,300 acres to the project area. The RDA concentrates on the revitalization of the downtown commercial district, which sustained significant damage after the 1989 Loma Prieta earthquake, and the development of job producing businesses in the city's industrial areas. The city also has plans to use RDA funding to finance its long planned Civic Plaza Project which calls for a four-story complex on the 200 block of Main Street which includes city offices, a City Council Chamber, library, and county court space. In fiscal year 2001/2002, the RDA generated \$2,435,276 in increment for capital projects and \$801,804 in increment for affordable housing projects.⁴

Response: City of Watsonville

The Agency partially agrees with this finding.

The Watsonville Redevelopment Agency's Annual Financial Report for fiscal year ending June 30, 2002, states the RDA generated \$3,207,042 for non-housing purposes and \$801,804 for low and moderate-income housing projects. Of this, the Agency had to "pass-through" \$771,766 to other taxing entities from the money received that was available for non-housing purposes together with an additional \$668,894 that was required debt service on prior tax allocation bonds. Accordingly, the Agency only received \$1,800,833 that was available for capital projects.

13. RDAs are required by state law to allocate 20% of their available increment to the development of affordable housing. In some cases they allocate more. For example, the City of Santa Cruz allocates and uses 25%, but many RDAs throughout the state fail to utilize the entire 20%.

Response: Santa Cruz County Board of Supervisors

This finding does not pertain to the Santa Cruz County Redevelopment Agency.

Response: City of Capitola PARTIALLY AGREES

The City allocates 20% to its low/moderate income housing fund. The City of Capitola does not monitor such allocations from any other agency.

⁴ The City of Watsonville has also been designated a federal "Enterprise Zone" which provides it with significant advantages in attracting business development.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Most RDAs in the area must collect a significant amount of affordable housing funds in order to assist in the production of units. While it is apparent that some jurisdictions have not been able to spend all of the affordable housing monies, Scotts Valley has made significant progress in meeting our affordable housing goals. A significant investment of over \$4 million was made for a 46 unit very low income apartment project adjacent to City Hall. We have implemented a successful silent second program and worked with developers to provide additional affordable housing units within inclusionary projects than is required. Due to the costs of development and property values, Scotts Valley has had to collect funds over a period of time in order to make projects feasible.

Response: City of Watsonville

The City has noted this finding.

14. It is unclear how effective these affordable housing programs are. For example, the Santa Cruz County RDA, in conjunction with South County Housing, a non-profit housing developer, recently completed the first phase of a 99 unit affordable housing project off Airport Boulevard next to Corralitos Creek. The first phase of this development, known as “Corralitos Creek Townhomes”, contains 23 four-bedroom units priced at \$287,100 and 12 three-bedroom units at \$272,100. There were originally over 200 applicants who applied for a lottery for these homes, but most of the applicants did not meet the financing requirements to be eligible purchasers. Therefore, in early April of this year, the RDA notified local governments of the opportunity for their employees to apply for these townhomes. South County Housing was to begin soliciting additional applicants as well, with the homes scheduled to go on sale at the end of June.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

The evidence does not support the initial comment that, “It is unclear how effective these affordable housing programs are.” With almost 1,000 affordable housing units assisted by the County Redevelopment Agency since its inception with a substantial leveraging of outside funds, the County believes that the housing assistance efforts have been extremely successful.

Response: City of Capitola PARTIALLY AGREES

Without doing thorough research it is unclear how effective various affordable housing programs are. The City of Capitola has done no research on the “Corralitos Creek Townhomes” project. However, we note that the identified sales prices are well below market prices for new single family homes, and adjustments to marketing efforts will likely lead to identification of a sufficient number of eligible purchasers.

Response: City of Santa Cruz

The City has no comment on the above example. However, for further information with respect to this comment, the City RDA has provided on the following page a listing of where a substantial amount of redevelopment resources to the development of affordable housing has been made during the life of the Merged Project Area. These projects have created a mix of 831 low- and very low-income and market-rate household units in both for-sale and rental housing units as follows:

Affordable Housing Projects - Completed, Rehabilitated or Under Construction	
Neary Housing Coop	95 Low- and Very Low-Income Rental Co-op Units
Arbor Cove Seniors Project	35 Low- and Very Low-Income Units
Sycamore Street Commons Project	60 Low- and Very Low-Income Rental Units
Mariners Cove Project	12 Moderate-Income 1 st Time Home Buyer Units 72 Market-Rate Buyer Units
155 Chestnut Street	14 Low- and Moderate-Income Rental Units 82 Market-Rate Rental Units
511 Swift Street Artist Live/Work Project	9 Moderate-Income Live/Work Units
515 Leibrandt Avenue	7 Low- and Moderate-Income Rental Units
1010 Pacific Avenue	43 Very Low- and Moderate-Income Rental Units 70 Market-Rate Rental Units
1280 Shaffer Road	83 Low- and Very Low-Income Rental Units 123 Market-Rate Rental Units
136 Leibrandt Avenue	47 Low- and Very Low-Income Rental Units – Replacement of Substandard Non-Affordable Housing Units 1 Moderate-Income Rental Unit
Total	405 Low- and Very Low-Income Rental Units 47 Replacement Affordable Units 342 Market-Rate Rental & Owner Units
Affordable Housing Projects - Start of Construction July 2003	
211 Gault Street Seniors Housing Project	37 Low-Income Units
Total	37 Low-Income Units

Response: City of Scotts Valley PARTIALLY AGREES

We are unable to comment on the specific project in Santa Cruz County. However, it should be noted that the effectiveness of affordable housing projects varies with each project and program, and in each jurisdiction. Scotts Valley has been able to achieve several housing opportunities both with rental units and with for sale units where families successfully qualified and have purchased or are renting units. Purchasers are also further assisted in Scotts Valley through our Silent Second program. We also encourage potential purchasers to pre qualify for units through a local mortgage company to ensure that they can purchase a unit. For rental units, we also provide a program to assist with the first month's rent and provide a security deposit guarantee. Both of these programs have been very successful.

Response: City of Watsonville PARTIALLY AGREES

The City realizes just how difficult it is to satisfy the myriad of redevelopment requirements that govern the development of affordable housing projects. Redevelopment Law governs, along with other aspects of the sale of a specific low and moderate income housing unit, the sales price, the maximum income of the purchasing family, and the maximum percentage of that family's income that can be spent on all housing costs. Special legislation that applies solely to Santa Cruz County became effective on January 1, 2002, which recognizes the difficulty Agencies have in qualifying buyers according to all the provisions required under RDA law, especially in high housing cost areas. Even with the provisions of SB 459, it is still difficult to meet all the required standards.

15. Faced with a substantial state budget deficit, the Governor has proposed, in current negotiations, to take unused housing funds away from RDAs who fail to utilize them.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

The Governor did propose such a transfer, but the proposal was resoundingly defeated in both houses of the legislature.

Response: City of Capitola DISAGREES

The Governor has approved a budget without such a provision.

Response: City of Santa Cruz AGREES

The City RDA does not have any unused housing funds.

Response: City of Scotts Valley AGREES

Response: City of Watsonville

The Governor had originally proposed this, but that proposal died due to extensive opposition from communities, housing advocates and legislators. Subsidized housing projects typically require complex and sophisticated financing from a number of different sources. Projects can take years in the making in order to secure both the required funding and development entitlements. Therefore, just looking at a fund balance does not give a true picture of how an Agency has anticipated using housing funds because anticipated projects are frequently somewhere in the conceptual or development pipeline.

16. By law, RDA project areas are limited to a fixed term of existence. In effect, this means that some RDAs are likely to be closed out in the next two decades unless new blighted areas are identified. While new project areas can be formed, changes to state law make new projects less attractive than in the past.

Response: Santa Cruz County Board of Supervisors AGREES

Response: City of Capitola AGREES

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville PARTIALLY AGREES

RDA project areas are limited to a fixed term of existence. More recent legislation has tightened the criteria that must be met before a project area can be formed, but “legitimate” redevelopment project areas are likely to continue to be formed.

17. The state budget crisis poses a significant threat to the stability of RDA funding for capital projects. Actual and threatened cuts of funding for RDAs have caused the cancellation or postponement of projects and put into question the ability of RDAs to meet current obligations to repay bonds over the long term. Although RDAs are theoretically independent agencies responsible for their own debts, it is virtually inconceivable that a local government would let its RDA go bankrupt except in the direst of circumstances.

Response: Santa Cruz County Board of Supervisors PARTIALLY AGREES

While it is true that the state budget crisis could pose a long term threat to RDA funding, it is not currently clear whether that will in fact become a problem. There will be some limited impacts from the cuts contained within the current state budget, but there will only be significant impacts to agencies’ activities in the event that the state continues to make such cuts in future years. It is not clear whether the current cut will be a one-year or ongoing transfer of RDA revenues to the state.

Response: City of Capitola PARTIALLY AGREES

Fortunately the City of Capitola has never been put into such a position. The policy tension would be using general fund money to alleviate a credit problem created by the State of California, or preserving the level of services provided to the city residents through its general fund. This would not be an easy decision to make especially if health and safety issues were involved.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville AGREES

18. Because commercial uses also generate sales tax revenue, they are often given more assistance from local governments and RDAs than less “profitable” but job generating properties.

Response: Santa Cruz County Board of Supervisors DISAGREES

To the extent that the County RDA has provided assistance to proposed commercial projects, that assistance has been targeted to both sales tax and job generating projects, the County cannot agree with this finding.

Response: City of Capitola DISAGREES

The City of Capitola makes every attempt to provide the same level of prompt and helpful customer service to all who come to the development counter. State law and then local policy governs who may receive assistance from RDA funds. The City of Capitola has not withheld assistance because any project was less profitable.

Response: City of Santa Cruz DISAGREES

The City RDA has given assistance to both sales tax-generating projects and job-producing projects.

Response: City of Scotts Valley DISAGREES

The City of Scotts Valley provides assistance to all businesses on an as needed basis. We have a variety of programs in our Economic Development Plan that assist existing and new businesses, as well. We do not provide financial incentives.

Response: City of Watsonville AGREES

The City agrees with this finding in general, although, not in the case of Watsonville.

19. Some high dollar volume properties such as car dealerships and “big box” retailers can be particularly profitable to their local government hosts. For example, the proposed Home

Depot on Green Valley Road in Watsonville is expected to begin generating \$360,000 in sales tax for the city by 2005.

Response: Santa Cruz County Board of Supervisors AGREES

The County agrees with the first statement of this finding, but has no knowledge of expected sales tax income of the Watsonville store.

Response: City of Capitola AGREES

The City of Capitola is not familiar with the details of the Home Depot project, but retailers with a high dollar volume can contribute significantly to the city's general fund revenue.

Response: City of Santa Cruz AGREES

Response: City of Scotts Valley AGREES

Response: City of Watsonville PARTIALLY AGREES

However, it must be clearly understood that this was a private transaction, with no involvement or participation from the Watsonville RDA.

20. Consequently, many local government and redevelopment agencies offer financial incentives to these businesses to encourage them to locate in their jurisdiction. This practice can result in local governments bidding against each other to direct the location of particularly lucrative businesses within their borders with no net gain to the local area as a whole. This is especially true when one jurisdiction uses its financial resources to attract local business to relocate within the local area, sometimes just a few miles in order to cross a local jurisdiction boundary.⁵

Response: Santa Cruz County Board of Supervisors

Without more specific information, the County is not in a position to either agree or disagree. As is pointed out in the footnote to this finding, state law strictly limits redevelopment agencies' ability to provide financial assistance to lure high sales tax generating projects from surrounding jurisdictions. To our knowledge, while there have been efforts by some business interests to pit local agencies against each other for new retailers in the areas, those efforts have not been successful in Santa Cruz County, largely due to the close working relationships between the local jurisdictions.

⁵ This topic has been the subject of reform efforts at the state level. Numerous proposals have been made to encourage the sharing of sales tax revenue on a regional or per capita basis. Additionally, SB 214, which has passed the State Senate, proposes that local governments be forbidden from subsidizing relocations by large retail stores within 25 miles and car dealers within 40 miles of their current location.

Response: City of Capitola PARTIALLY AGREES

The City of Capitola is aware that this may happen, but the City of Capitola has never agreed to any such incentive.

Response: City of Santa Cruz DISAGREES

This finding is no longer valid inasmuch as the State Legislature has specifically limited the type of bidding for commercial projects, which are mentioned above with the passage of AB 178 in 1999 and other legislation which has been considered by the State Legislature in the current session.

Response: City of Scotts Valley PARTIALLY AGREES

Scotts Valley does not provide any financial incentives to new businesses to encourage them to locate in our jurisdiction. We do understand, particularly in other counties, that local governments may bid against each other to direct the location of retail businesses. However, we have not observed that this has occurred in our County.

Response: City of Watsonville PARTIALLY AGREES

The City can't speak to the incentives to businesses offered by other jurisdictions but agrees that this type of "bidding war" has occurred in the past. There is new legislation which specifically prohibits redevelopment agencies from providing incentives to "Big Box" retailers and auto dealers who are relocating from within the same market area. The Watsonville Redevelopment Agency has not offered incentives to attract local business to relocate within the same market area.

21. In the past, the Santa Cruz area has had its share of competition for retail businesses. Today, local officials are less willing to use their resources for this purpose.

Response: Santa Cruz County Board of Supervisors

Without more specific information, the County is not in a position to either agree or disagree. While the meaning of this finding is not completely clear, the implication is that local governments in some past period were open to using their financial resources to encourage retail business to come to the area and that somehow that era has passed. We are not aware of any era where such assistance has been encouraged, with the brief exception of immediately after the 1989 earthquake. In general, local governments in Santa Cruz County have been reticent to provide financial incentives to attract retail businesses and have worked cooperatively on issues associated with the relocation of tax generating businesses.

Response: City of Santa Cruz AGREES

The city of Santa Cruz agrees with this finding as it relates to the City of Santa Cruz. The City cannot comment regarding other agencies.

Conclusions

1. RDAs have been critical to the growth of our local economy. Projects for flood control and earthquake recovery have helped local businesses survive and prosper. Street improvements in commercial districts and conversions of rundown areas to profitable retail uses have generated significant sales tax revenue for local governments. These and many other accomplishments should be recognized when discussing the effectiveness of RDAs.
2. However, the use of RDA funds to finance the renovation or construction of public buildings and facilities such as branch libraries and the Civic Plaza in Watsonville leaves the impression that local governments are using RDA funds for projects that would more properly be funded by other sources.
3. The use of an RDA by the County of Santa Cruz to fund infrastructure projects in residential areas serves a useful purpose, but seems to violate the spirit if not the letter of the law. A greater emphasis on commercial development would return the RDA to its intended purpose and provide more benefit to the county in the long run.
4. The County of Santa Cruz RDA is currently providing funding for infrastructure projects in the Live Oak and Soquel residential areas. This is not a permanent solution because the term of existence of the RDA project area is limited.
5. The closing of RDA project areas over the next 20 years constitutes a potentially significant loss of funds to local government and may require significant wind up costs and planning.
6. While the City of Santa Cruz RDA may realize significant savings through its use of enterprise fund reserves to finance RDA activities, the practice raises significant concerns worthy of further examination.
7. The existence of city enterprise funds and county service area funds creates potentially large pools of money that are tempting targets for cash strapped local governments. However, their main purpose, the provision of services to their ratepayers, should be controlling.
8. The deduction of income generated by properties held by an RDA from RDA administrative expenses artificially lowers the true percentage of RDA funds required for this purpose.
9. The City of Capitola's proposal to sell the Rispin mansion to its RDA does not appear to serve any purpose other than to create a debt for its RDA and a revenue stream to the city. Additionally, the rest of the citizens of this county are asked to foot the bill through

increment financing. The Grand Jury is left to wonder if Capitola will then reassume ownership of the property upon the eventual termination of the RDA. Following on last year's proposal to create a similar debt for supposed administrative services provided by the city to the RDA for a number of years, the Grand Jury wonders if the City of Capitola's RDA has outlived its legitimate usefulness.

10. The use of RDA funds for the purpose of competing with other local jurisdictions to attract lucrative "Big Box" retailers can be counter productive when those retailers would locate somewhere in the area without government assistance.
11. Additionally, despite recent attempts to level the playing field, RDAs and other jurisdictions with large revenue sources have an advantage in the competition to attract new business development when in competition with less prosperous areas. This would seem to conflict with the stated purpose of RDAs.
12. Efforts by local officials to communicate with each other concerning large development proposals can help to prevent one jurisdiction from being played off against one another to encourage greater concession to developers.
13. Agreements among local government jurisdictions to equitably share sales tax revenues from large retailers and standardized redevelopment assistance programs could prevent unnecessary competition and lead to development based on the actual business requirements of developers.

Recommendations

1. Each RDA should examine its projects to ensure they are of a type that should legitimately receive RDA funding.

Response: Santa Cruz County Board of Supervisors

This recommendation has already been implemented under the requirements of state law. Under State law, redevelopment agencies are required to adopt implementation plans every five years and update those plans in year three of the five-year cycle. The plan is required to show how the proposed projects and programs will serve to reduce the blight that was identified in the original redevelopment plan that established the redevelopment project area. As individual expenditures are approved by the agency's board of directors, various findings must be made, including that the project or program is consistent with the adopted five year plan. This process establishes the legitimacy of individual agency expenditures and projects.

Response: City of Capitola

This has been implemented.

Response: City of Santa Cruz

This recommendation has been implemented through the adoption of the City of Santa Cruz' 2000–2004 Implementation Plan.

Response: City of Scotts Valley

This City has implemented this recommendation.

Response: City of Watsonville AGREES

2. Each city and the county should require its RDA and community development staff to prepare a presentation at a future public meeting that
 - describes the proposed time table for the wind-up of the RDA project areas currently in existence
 - outlines the financial impact to the jurisdiction to be expected on termination of each project area.
 - provides a road map for future RDA wind-up planning
 - identifies the risks to the jurisdiction posed by potential drastic cuts in RDA increment revenue should the state decide to redirect RDA funding to other priorities

Response: Santa Cruz County Board of Supervisors

This recommendation has in part already been implemented, and other aspects will not be implemented for the reasons described below. In addition to regular public meetings to review project designs, the County RDA periodically holds general community meetings to seek feedback from the community on projects completed to date and future project needs. As part of these meetings, the time line for completing project activities is discussed, and when the Agency approaches the end of its activity (2027), those meetings will focus on an orderly transition to a time where redevelopment funding will not be available. For the County RDA that time is many years away and therefore such discussions in the near future would be premature.

Because the date for completing redevelopment activities is so far in the future, it is anticipated that most capital improvement projects will be completed. The elimination of this funding therefore should have little negative impact on non-housing activities. However, in the case of affordable housing assistance, the impact will be significant. Because the need for affordable housing will always exceed the supply, the Agency provides the majority of local contributions towards affordable housing projects and programs, and outside funding sources require local matches, the loss of redevelopment housing funding will be a major issue. As the County approaches the 2027 deadline for completing redevelopment activity, it will need to explore other options to provide ongoing funding for affordable housing efforts.

As far as the impact of State funding cuts to Redevelopment Agencies, the State has indicated that required RDA contributions to the ERAF fund are one-time. Proposals in the most recent legislative session to phase-out redevelopment funding were not well-

received. Therefore, it is likely that agencies will continue to negotiate with the State annually during difficult fiscal times. Given that backdrop, it would be difficult to have focused community discussions of the impacts of State cuts to RDAs.

Response: City of Capitola

This recommendation will not be implemented at this time. The City of Capitola Redevelopment Agency's current term expires in 2017, and may be extended beyond that. It is more appropriate to discuss the wind-up and termination impacts when the expiration date is nearer.

Response: City of Santa Cruz

The recommendation has been implemented as the RDA is required by State law to adopt a Five-Year Implementation Plan after the conduct of a public hearing. The City RDA has adopted its Implementation Plan for the period 2000–2004 in December of 1999 and, pursuant to State law, has reviewed the plan at a public hearing during the mid-point of the Implementation Plan's time period. This public hearing was held on April 8, 2003. At this public hearing, information was provided which addressed some of these points. However, since the City RDA has extended its debt limit deadline for its projects pursuant to SB 211, it is premature to outline events which now have a horizon of 2030. In addition, State redevelopment law can change in the intervening years which can affect redevelopment further, which has been the case in which the State adopts takeaways from RDAs in order to meet the State budget deficit but allows an RDA to extend the term of its project.

Response: City of Scotts Valley PARTIALLY AGREES

The Scotts Valley RDA was established in 1990 and is a 40 year Plan. Therefore, 30 years are left on the Plan. To implement the first three recommendations seems premature at this time. However, the fourth recommendation regarding the potential drastic cuts in RDA increment revenue will be reviewed with our City Council once the outcome of the State Budget is known.

Response: City of Watsonville PARTIALLY AGREES

Most of this information is included in both the documents used when a redevelopment plan is adopted and in the mandated Five Year Implementation Plan and any Mid-Term Review of the Implementation Plan. The Watsonville RDA and the public have been briefed repeatedly since January of this year about the level of impact that any on-going redirection of RDA funding would have to the City.

3. The City of Santa Cruz should fully disclose to its enterprise fund ratepayers the terms and conditions of its loans to its RDA. Additionally, if city officials wish to continue this practice, guidelines for protecting the interests of the ratepayers should be developed.

Response: City of Santa Cruz

This recommendation has been implemented. The City RDA has one enterprise fund loan in the amount of \$45,851 from the Water Fund to the Eastside Project Area. This loan was approved by the City Council in 1997. At current interest rates this loan will be repaid in seven years. The loan pays an interest rate set by the City Investment Portfolio, which is the same rate the monies would earn if they were in the Water Fund. The loan was made to accommodate the Water Fund refinancing of a previously issued Certificate of Participation which was jointly funded by the RDA and Water Fund to finance the purchase and development of the Eastside Parking Lot and various water projects. In 1997, the Water Fund chose to refinance the Certificate of Participation (to gain a lower interest rate) and the amount of funds for the redevelopment project were not included in the Certificate of Participation, but as a loan from the Water Fund to ease their refinancing of the Certificate of Participation for the Water Fund.

In the event that the Water Fund was in a deficit situation, this loan could be repaid from RDA funds.

4. At a minimum, future proposals to invest enterprise funds in local government operations should be fully disclosed to ratepayers prior to approval.

Response: City of Santa Cruz

This recommendation has been implemented as this information is, as previously mentioned, made available to the City Council and RDA when any such loan is made. At this point only one loan is outstanding.

5. To allow for the better evaluation of the performance of the agency, each RDA should clearly present in its annual financial documents its administrative costs without deduction for income from properties held.

Response: Santa Cruz County Board of Supervisors

This recommendation has already been implemented. The County Redevelopment Agency in past years did combine general administrative costs with property income and expenses. As part of the FY 2003-04 budget, property income and expenses have been set aside in a separate budget unit in order to provide more flexibility in the use of revenues.

Response: City of Capitola

This has been implemented. City of Capitola administrative costs to the RDA is based on city staff time, materials and overhead used by the RDA.

Response: City of Santa Cruz

The recommendation will not be implemented because this comment does not apply to its RDA inasmuch as the RDA does not deduct property income from its administrative costs and is unclear as to the origins of this claim.

Response: City of Scotts Valley

*The City has implemented this recommendation.
The City of Scotts Valley does not receive any income from properties.*

Response: City of Watsonville NEITHER AGREES NOR DISAGREES

The Watsonville RDA does not offset administrative costs with income from properties.

6. The City of Capitola's RDA should not initiate further projects or project areas and the RDA should be terminated as soon as is prudently possible.

Response: City of Capitola

This recommendation will not be implemented. The City of Capitola Redevelopment Agency is an excellent tool for the City and offers still considerable resources, about \$40 million, for the construction and implementation of eligible projects. Such projects include: 41st Avenue traffic congestion studies and improvements; affordable housing projects; the Rispin Mansion project; and other pedestrian and public works projects. Finally, it should be noted that the tax increment dollars used for these projects do not diminish any revenue from any other local agency. In fact, the Capitola RDA increases those revenues.

7. Local government jurisdictions should negotiate equitable agreements to share sales tax revenues and to promote regional development planning.

Response: Santa Cruz County Board of Supervisors

This recommendation has been partially implemented, and part of the recommendation cannot be implemented. State law currently limits the ability of local governments to share sales tax revenues. Recent legislation proposed to provide a test of a shared sales tax system in the Sacramento area was not approved. The local planning and redevelopment directors meet regularly to discuss regional planning and development issues. City and County administrators also coordinate responses to specific inter-jurisdictional financial issues as they arise.

Response: City of Capitola

This recommendation requires further analysis. With regard to sharing sales tax, depending upon the source and nature of sales tax, in certain respects this has already been implemented. The transit and library districts share in sales tax (transit .50%, and Library .25% of each eligible retail transaction.) Furthermore, should AB 1412 become law, which would allow certain cities and counties to increase sales taxes by vote, there

would be more of an incentive for the City to consider sharing sales taxes with other jurisdictions.

With regard to promoting regional development planning, CEQA does play a role in requiring a certain amount of regional input into the development process. However, it is understood that more cooperation is desired. The difficulty is that each jurisdiction has its own special vision for its community, and these visions can differ significantly. In some cases it is the differing visions that created the separate jurisdictions in the first place.

Response: City of Santa Cruz

The recommendation will not be implemented. The City of Santa Cruz believes that there is legislation in place which addresses this recommendation.

Response: City of Scotts Valley

The sharing of sales tax will not be implemented because it is not warranted at this time. In the County of Santa Cruz we feel that reasonable development planning is not driven by sales tax revenues, but more by land availability and transportation and labor opportunities. In the County of Santa Cruz there also exists disparities in property tax distributions, so therefore, prior to any sales tax re-distribution, the property tax would also need to be studied, which in itself presents major obstacles.

City planning decisions require financial stability to engage in the meaningful long-range planning needed to deal with the difficult issues of urban growth. The current revenue structure for local government has no stability beyond the next state budget cycle. The redistribution of local sales tax revenues should not go into effect until measures are placed on the ballot to provide constitutional protection of local government revenues.

Response: City of Watsonville PARTIALLY AGREES

The City would be interested in participating in such discussions.

Responses Required

Entity	Findings	Recommendations	Respond Within
Santa Cruz County RDA	1-3 4,7,11, 13-21	1-2,5,7	90 Days (Sept. 30, 2003)
City of Capitola RDA	1-3, 7-11, 13-20	1-2,5-7	90 Days (Sept. 30, 2003)
City of Santa Cruz RDA	1-3, 6-7,11, 13-21	1-5,7	90 Days (Sept 30, 2003)
City of Scotts Valley RDA	1-3, 5,7,11, 13-20	1,2,5,7	90 Days (Sept 30, 2003)
City of Watsonville RDA	1-3,7, 10-11, 13-20	1,2,5,7	90 Days (Sept 30, 2003)

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