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It's Groundhog Day for California Redevelopment Bills

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Despite Vetoes, California Tax Increment Likely to Return

Three bills aimed at reviving local development financing in California are moving through the legislature after Gov. Jerry Brown vetord similar legislation last year.

"This is California's version of Groundhog Day," said Larry Kosmont, president and chief executive officer of Kosmont Cos., a Los Angeles-based real estate and economic development firm. "We're just going to work hard, some of the bills will pass, and likely all of them will die. None of them will get approval by the governor, in my opinion."

The bills, which would help reinvent development tools for municipalities primarily by using incremental growth in property tax revenues, as redevelopment agencies once did before their dissolution in 2012, have been passed by the State Senate, which adjourned for summer recess on Friday. The bills will go to the floor of the Assembly, which is in recess until Aug. 5.

Brown vetoed similar legislation last year, saying it would be "premature" to return to economic development financing and encourage cities to focus on using the new tools rather than finishing the job of unwinding redevelopment. The 400-plus redevelopment agencies were dissolved by the Legislature amid criticism that the agencies had taken an unfair portion of the property tax base.

Kosmont said he believes the governor will eventually revisit the issue of tax increment financing. A press officer for the governor said he does not generally comment on pending legislation.

On July 3 the Assembly Appropriations Committee voted to approve Senate Bill 33, which the Senate passed in April.

The bill, sponsored by Sen. Lois Wolk, D-Davis, would reinvent infrastructure financing districts and would allow municipalities to return to funding projects by using tax increment. Her new bill is similar to a bill she proposed last year, SB 214, which was vetoed by the governor.

The legislation would remove the state requirement for voters to approve districts' formation or issuing bonds for projects and extends the term of IFD bonds from 30 years to 40 years. It also creates accountability requirements through an annual, independent audit, given to public agencies and landowners.

"IFDs use growth in property taxes, not new taxes, to finance important projects like highways and sewer projects without adversely affecting our schools, core local services, or the state general fund," Wolk said after the bill passed through the committee. "SB 33 removes key impediments to forming IFDs, gives local officials the flexibility and decision-making authority to determine project priorities at the ground level, and works to ensure IFDs are fiscally accountable to their communities."

Under current state law, IFDs can divert property tax increment revenues for 30 years to finance highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks and solid waste facilities. They cannot pay for maintenance, repairs, operating costs, and services.

The current law has major fundamental statutory flaws, Kosmont said:the requirements for two thirds voter approval to form the IFD; and two thirds voter approval for the IFD to issue bonds. A majority voter approval is also required to set the IFD's appropriations limit.

"These infrastructure bills are all about modifying what I consider a useless body of law in California — the infrastructure financing districts — which have existed for 20 years and have been used maybe two or three times in that time," Kosmont said.

Carlsbad formed a district in 1999, nine years after the IFD law passed, to fund the public works for a new hotel next to the Legoland theme park. In 2011, a law created a special exemption allowing San Francisco to create an IFD without voter approval to finance waterfront improvements for the America's Cup sailing races.

"Basically, these bills are looking to fix the IFD law so that it's more useable," Kosmont said.

A second bill that would remove voter-approval requirements was also recently passed by the Assembly Housing and Community Development Committee and moved to the Assembly Floor. Senate Bill 628, introduced by Sen. Jim Beall, D-San Jose, is aimed particularly at transit priority projects.

The bill would eliminate voter approval requirements for the creation of an IFD, the issuance of bonds, and establishing an appropriation limit for transit priority projects.

Dan Carrigg, legislative director for the League of California Cities, said the league believes Wolk's bill is the most flexible bill among those that address current IFD legislation.

"There are two categories of tax increment bills that are in the legislature," he said. "One includes the bills that tier off the old infrastructure finance district law that's never really been used and try to update that law and make it more useful. Wolk's is the most comprehensive clean-up to the law and one that we support."

SB 33 also has support from the California State Association of Counties, California Building Industry Association, and California Special Districts Association, among others.

Carrigg said the other category of tax increment bills build off the old legal foundation of redevelopment agencies.

Senate President pro Tem Darrell Steinberg, D-Sacramento, introduced Senate Bill 1, a bill similar to his SB 1156, which the governor vetoed last year.

SB 1 would create Sustainable Communities Investment Authorities that could use property tax increment and would allow local governments to create an authority by entering into a joint powers agreement. They would also be able to use current local redevelopment law, minus the payments of tax increment from other taxing entities, such as schools.

The bill passed in the Senate in May and in the Assembly Housing and Community Development Committee on July 3.

The League of Cities does not have a formal position on the Steinberg bill, Carrigg said.

"One size doesn't' fit all when it comes to these tools," he said. "We would advocate the governor signing a variety of these measures that would at least give local agencies choices so they can begin to move forward after the aftermath of RDA."

The Assembly has also passed tax increment bills that are now in the Senate.

Assembly Bill 1080, sponsored by assembly member Luis Alejo, D-Salinas would try to reestablish financing tools to help revitalize "disadvantaged communities." The bill would allow a city, county or joint powers authority to establish a community revitalization and investment authority that could collect tax increment.

The bill was passed in the Assembly in May and in the Senate Transportation and Housing Committee last week.

"I think the Steinberg bill might have more far reaching implications in that it could be used on a greater geographic basis," Kosmont said. "None of these are perfect, but Alejo's bill is much more limited in that it's really only looking to establish tax increment in areas that are highly impacted, or very low on the economic scale. The truth is that pretty much all of California needs economic

development tools since the state is so uncompetitive in terms of costs and business over-regulation."

There are also two Assembly Bills that aim to improve current IFD laws.

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