

Death of redevelopment in California a complicated tale

By Kathryn Reed

A \$5 billion a year “industry” that has existed in California since 1945 is about to die.

South Lake Tahoe’s redevelopment agency is one of more than 400 that must be dissolved by the end of the month because the state is eliminating property tax increment as a financing tool.



Embassy Suites and Heavenly Village are projects some say would not have been built without a redevelopment agency.

Photo/LTN file

Gov. Jerry Brown wants the money cities collect through redevelopment to go to education and public safety. Cities wonder how they will offer the basic services those dollars fund.

Cities made money via redevelopment projects by having them in special districts where the property tax was essentially frozen for the entities receiving those dollars. When the assessed value went up – aka tax increment – all that money stayed with the jurisdiction where the redevelopment occurred.

For South Lake Tahoe, that has meant more than \$60 million since 1988, with another \$12 million set aside for affordable housing.

City officials would argue the more than \$600 million in private investment in the last 24 years would not have occurred without the redevelopment agency.

The state will take in more money by having property tax disbursements be divvied up as though redevelopment never existed. This means school districts in particular will get more money. Voters want schools to be funded at certain levels, most notably with the passage of Proposition 98. But the state has not always kept that promise. The state should have more to dole out to all levels of education with redevelopment agencies being dissolved.

But the state doesn't get that "extra" money until the debt is paid off. South Lake Tahoe has another 25 years to wipe that slate clean.

Figuring out the assets

How the city comingles its money does not help with clearly separating what goes where. When the South Lake Tahoe Redevelopment Agency was set up in 1988 it was a distinctly separate entity from the city, as required by state law. However, the people overseeing the agency have always been the City Council members, and the head of it has always been the city manager.

Instead of the agency having a simple budget, there are more than a dozen budgets within the main budget. They represent

various projects.

Instead of the City Council approving two budgets – one for city business and one for redevelopment – it's all tied into one.

About \$83,000 from the redevelopment budget pays for various employees in South Tahoe. The city allocates percentages from various entities to cover an employee's salary.

That cash will have to be absorbed by the general fund. But the general fund's bottom line will increase because of the way housing dollars have been allocated prior to the dissolution. The exact impact to the general fund is not known – but city officials predict it could be a net gain.

Dissolving redevelopment agencies is not as simple as redirecting where the money goes or having the state own the assets or collect the proceeds from selling them.

For a city like South Lake Tahoe, detention ponds are on the list of assets. Who would buy a stormwater facility like that? What price tag would be put on it? "Probably no one" and "who knows?" are the answers.

"Some of our assets are liabilities. They require operation and maintenance money," Councilman Hal Cole said at the Jan. 17 meeting.

The city also owns spaces in the garage at the corner of Highway 50 and Ski Run Boulevard. Diamond Resorts might be a buyer for those.

The city also owns the vacant parcel on that corner. Its value might be \$1 million today. The state mandate is sell assets expeditiously and for the most amount of money. In this real estate market, those sentiments contradict one another.

The council at its Jan. 17 meeting asked for a list of assets to be available at the special meeting at the end of the

month. This will also include items like computers.

Going forward

One thing in the city's favor is no one works for the redevelopment agency. This means no more job losses. However, throughout the state there is the potential of about 1,500 jobs going by the wayside, according to the California Redevelopment Association.

South Lake's agency once employed nine people. In last year's reorganization employees were reassigned even though the work of the agency went on.

What the change effective Feb. 1 means to South Tahoe is the \$5.7 million it pays each year to service its redevelopment bond debt won't be able to be paid without some help. The city's tax increment collections fall about \$1 million short of what's needed to pay the debt.

One thing that remains is transient occupancy tax dollars will continue to fill the gap to pay the Tax Allocation Bonds. This is because that's how the bond documents were written. As long as tax increment is insufficient, TOT will fill the gap for these bonds. This is only case in which TOT is used for debt.

Also in the must-pay column is the outstanding debt left from the \$7.2 million the redevelopment agency pilfered from the general fund to make Heavenly Village a reality. The balance is \$3.5 million.

In dissolving the redevelopment agencies, the state has said counties must loan the successor agencies the amount needed to pay the debt.

County governments are in no better financial shape than cities or the state, so how this will happen remains to be seen.

An irony with El Dorado County coming to blows with the city

regarding Redevelopment Area 2 is that the tax increment from that area will help the city be able to pay back the county faster.

The successor agency is the name the state has given to whoever takes over for the redevelopment agency. It does not have to be the city where the agency is. However, in South Tahoe's case, the city is the successor agency. This was done by a vote of the City Council on Sept. 27.

"One purpose of the successor agency is to pay the debt," Nancy Kerry, city redevelopment expert, told the council Jan. 17. "Money will still come in, but it is solely to pay the debt."

At a special Jan. 30 5pm council meeting the electeds will be asked to list the debts and assets of the redevelopment agency and transfer them to the successor agency. A fund must also be created to receive the tax increment and pay the debt.

The successor agency has four layers of oversight created by the state. The first is an oversight board that must be created by May 1. That board will be comprised of the mayor, a city employee appointed by the mayor, an El Dorado County supervisor, a county appointee, and one appointee each from Lake Tahoe Community College, Lake Tahoe Unified School District, and South Tahoe Public Utility District.

Successor agencies exist only until the debt is paid off. Once the debt is paid off, the taxing entities will receive their greater share of the tax increment. Essentially it goes back to pre-redevelopment shares. Those entities are members of the oversight board as well as others like Happy Homestead Cemetery District.

The other layers the state created are having the county auditor involved, then the state Department of Finance, and the state controller as the last set of eyes.

Affordable housing

A component of redevelopment agencies is affordable housing. At the Jan. 17 council meeting, the five agreed to set up a separate housing agency.

Money tied to the disbanding of redevelopment and grants in the pipeline would fund South Lake Tahoe's housing program for one or two years. It is possible two one-time funds could come from the state to the city for housing.

Had the council not taken this action the money and program would have been transferred to the county.

It remains to be seen what will happen to the Aspens project that is planned for near the corner of Ski Run Boulevard and Pioneer Trail.

On the horizon

Three issues could alter things. One is if Senate Bill 659 passes in the next two weeks. That would postpone the dissolution of redevelopment agencies to April 15.

Senate Bill 654 would transfer the housing fund balance to a new local housing agency when redevelopment agencies are dissolved.

Cerritos has filed a lawsuit seeking an injunction of Assembly Bill 26, the redevelopment dissolution law.