

Introduction to Tax Increment and Redevelopment



July 19, 2007

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Lodi needs more safe affordable housing for senior citizens. The City should help low-income homeowners pay for water meters. Motel business along Cherokee Lane is declining; the City should do something. Alleys are deteriorating. Lodi needs a new library. Lodi needs a new animal shelter. The Grape Bowl is a regional asset that if used correctly could spur economic development. The east side of Lodi needs a new community center and more parks. Why can't the Blakely Park Pool look nicer? Lodi should preserve older historic buildings. The storm and wastewater collection system is aging, obsolete and inadequate; why isn't the City doing anything? Overhead power lines should be buried underground. Lodi needs to improve its tax base and create more jobs.

These are just a sample of comments from Lodi residents about what they want and need from the City. The City constantly examines the range of services it provides and analyzes how to pay for and improve these services. With one major exception, Lodi fully utilizes the many forms of taxes and fees it receives. Lodi works closely to obtain funding from the State and Federal governments and the private sector to offer the range of services a "full-service city" provides.

The one major source of revenue that Lodi does not currently use is tax increment, which state law makes available to cities as outlined in the Health and Safety Code. Approximately 80 percent of all cities in California use tax increment revenue to meet the local needs of their residents and businesses. For every program, facility and service desired in the list above, tax increment is a tool that could be used to meet the need. It is a revenue source that does not raise taxes.

Tax increment is a component of the California Redevelopment Law. Over the next several months, the City Council will examine how tax increment can help Lodi. This may result in action to form a Redevelopment Project Area in Lodi. This paper is intended to provide a brief overview of tax increment and redevelopment and assist the Council and community members in further understanding this powerful locally-driven economic tool.

What is tax increment?

Tax increment is the amount of property tax revenues attributed to the incremental increases in tax value that are generated from development activity or transfers of property above a base amount within a designated redevelopment area called a project area.¹ It does not change the amount of taxes a property owner is required to pay. It does change how the extra property tax generated, “the increment,” is distributed. Lodi typically receives approximately 16 to 17 cents from every dollar of property tax paid. With tax increment, Lodi would be able to receive up to 75 cents from every dollar of new property tax generated above the base assessment; money that would otherwise go to the State of California or agencies that are the responsibility of the State of California.

Under the state’s tax increment rules, Lodi retains tax increment funds it must spend according to a plan, referred to as a Redevelopment Plan. The Redevelopment Plan can allow for expenditures for programs ranging from major rehabilitation of water, wastewater, and storm drain infrastructure to building a new library. There is only one absolute requirement with regard to the expenditure of tax increment funds: 20 percent of tax increment revenue must be spent on affordable housing.

Tax increment is only generated within a designated Redevelopment Area. This is a distinct geographic area. Although there are some exceptions, tax increment funds are spent within the Redevelopment Area. A defined and specific process must be followed in order to establish a Redevelopment Area. Certain conditions must exist and findings must be made. The area must be predominantly urbanized, and certain adverse physical and economic conditions must also be identified and exist to the point that they are a significant burden to the community.

Again, it is important to note that tax increment does not raise taxes. Tax increment is not an assessment or lien on property. Property taxes within the Redevelopment Area are governed by the same laws that limit property tax increases outside of the Area.

¹For example, tax on a property assessed at \$500,000 is \$5,000, with the City’s share (17 percent) amounting to \$850. Within a redevelopment project area, if the property is upgraded and sold for \$750,000, the new annual tax would be \$7,500. The city would receive 80 percent of the \$2,500 increase (\$2,000), plus the original \$850, amounting to \$2,850. Outside a redevelopment project, the city’s share would be \$1,275.

Other entities that are the financial responsibility of the State of California -- such as the county and school districts and other local special districts -- continue to receive all the tax revenues they were receiving before the tax increment was generated. Tax increment financing does not reduce revenue allocated to school districts. In fact, school districts and community college districts receive a portion of the redevelopment tax increments.² Existing State school funding formulas negate any gain or loss in property tax revenue, guaranteeing the state maintains a school's funding level, no matter what happens to the area's property taxes. Additionally, a large portion of the money the Agency shares with the School District will go to new facilities. This money would not be available otherwise.

In a nutshell, tax increment, through the adoption of a Redevelopment area, is an economic tool that could assist Lodi in addressing financial needs currently beyond the City's ability. It is a unique partnership that encourages economic stimulation so that growth in the tax base can provide funding for local improvements, create jobs, and improve health, safety, and quality of life in Lodi.

The History of tax increment and redevelopment in Lodi

A Redevelopment Agency must be formed to create a Redevelopment Project and collect tax increment.

According to California Health and Safety Codes,³ a Redevelopment Agency exists in every city and county in the State, but lies dormant until activated by ordinance.

Early in 2000, the City Council authorized the formation of a Lodi Redevelopment Agency and began the steps to form a Redevelopment Project area.

At that time, the City Council recommended establishing a project area in the oldest commercial and industrial areas of Lodi. Approximately 1,184 acres were identified as meeting the requirements that would allow the City to collect incremental taxes in exchange for stimulating growth and development in the area. In the spring of 2002, the City Council abandoned its plans to form a Project Area in response to citizen concerns and an initiative drive to put the project's future on the ballot.

² For redevelopment projects that were adopted before AB 1290, or January 1, 1994, the Agency negotiated separate agreements with each taxing entity. For those projects adopted on or after January 1, 1994, the total amount distributed to each entity is the same

³ Section 33100 of Health and Safety Code

It is interesting to note that, according to calculations prepared for the formation of the project area at that time, if the project would have been formed and if the development occurred in the fashion envisioned, the City would now have over \$400,000 in new revenue for this current fiscal year 2006-07. For comparison's sake, this would be like the city's share from \$40 million of new taxable sales.

One of the concerns expressed with redevelopment and tax increment in 2002 was a fear of eminent domain, the power to force someone to sell his property against his will. In order to address this concern on the part of members of the public and City Council, in 2006, the City Council adopted Ordinances 1775 and 1776 that eliminated the ability of the Lodi Redevelopment Agency to engage in the use of eminent domain for private use. It is expected that the City Council, if a project is adopted, will enact further restrictions and eliminate eminent domain by the Redevelopment Agency.

The Lodi Redevelopment Agency is still activated, but there is no project area and no change in the way property tax is distributed. The City Council will soon consider again exploring an area for a redevelopment project.

How and when will this occur?

It is anticipated that if the Council wishes to explore a Redevelopment Project Area, the public will have ample opportunity to voice opinions on what projects or activities should be funded with tax increment, how it could improve the community, and the project area boundaries. State law requires an environmental impact report on the project area and that several hearings by the Planning Commission and City Council be held prior to the area's adoption.

Currently, no boundary has been proposed for the Project Area. It is anticipated that an initial feasibility study will be conducted that will help select the boundaries of an area and prioritize activities before fully committing to the time and expense of adopting a Project.

It is anticipated that the entire process, if approved by the Agency, will take from 12 to 24 months.

Attached is "Exhibit A". It is a generalized preliminary schedule and listing of major work products required for plan adoption. It provides a detailed breakdown of the tasks required to form a project area.

What are the safeguards?

Because tax increment is a powerful tool, safeguards have been developed to ensure that activities are appropriate before receipt of tax increment funds. A report must be presented to the legislative body each year and an annual audit is required. An annual report must be submitted to the California Department of Housing and Community Development and other state agencies.

Redevelopment agencies must show that they have a financial obligation (debt) prior to the receipt of tax increment. This information is collected and transmitted to their counties in a document and is known as the Redevelopment Agency's "Statement of Indebtedness" or SOI. Without an SOI, the State would have no way to prevent any local agencies from collecting the increment and pocketing the money.

An Agency can incur an obligation in a number of different ways: it can borrow money from investors; it can borrow money from the City or engage in an agreement with the City; and/or it can incur obligations with private development interests. Debts of the Agency are not debts of the City.

Questions and Answers

Question: *Who oversees the expenditure of tax increment and redevelopment?*

Answer: The members of the elected City Council serving in the capacity as the governing board of the Redevelopment Agency. The community has full local control of additional revenues raised locally.

Question: *Will being in a Redevelopment Area depress my property values?*

Answer: There is no evidence that property values will be depressed. In fact, one might expect the opposite. With the possibility of greater revenue available for the area in certain circumstances, one might expect that property resale value could increase. Consider: if tax increment is used to improve water, sewer, or storm drains, does that seem likely to lower or increase property values? Would a new library help or hinder property values? The 1998 Dardia Report asserts that assessed valuation in Project Areas go up about twice the rate as similar uses outside the project area.

Question: *Does shifting property tax in the way tax increment works hurt schools?*

Answer: No. While school finance is complicated and can be confusing, the essentials are that the state provides funding based on average daily attendance. Additionally, the Agency shares a part of its tax increment with school districts which is “new” money to the schools and goes to school facilities.

Question: *How can I be sure that the City is not after my property?*

Answer: The City Council adopted ordinance 1775 and 1776 based upon local concerns to limit eminent domain. The City Council has not budged on the policies and provisions to protect property rights. Will adoption of a redevelopment plan change this policy direction? No. In fact, if a redevelopment plan is adopted that follows ordinances 1775 and 1776, it will be very difficult and costly to change from this existing policy direction. Also, new state law that became effective Jan. 1, 2007 requires redevelopment agencies to state their intentions regarding the use of eminent domain. The Redevelopment Agency will not use eminent domain to acquire property.

Question: *What about the small business?*

Answer: A small business can benefit from improved infrastructure. The Redevelopment Agency can absorb costs of building new parking lots, sidewalks and signs. The Agency can adopt programs specifically targeted to assist small businesses. The Redevelopment Agency has a specific obligation to give a preference to existing businesses and residents in development opportunities.

Question: *Will I have extra property maintenance obligations?*

Answer: No. Most redevelopment plans do not add to property maintenance requirements.

Question: *Is this more government regulation?*

Answer: No. The redevelopment plan will not change zoning or development standards – these will be, as they are now, covered by City ordinances. Redevelopment would provide funding and tools to assist with the funding of public improvements; tools to work voluntarily with property owners.

Question: *Doesn't the Redevelopment Agency just siphon money off the City that could have gone to the police and fire departments?*

Answer: No. The community will receive a greater amount of revenue with redevelopment than without redevelopment. By having the Agency bear the cost of public improvements, more of the City's General Fund can be made available for police, fire, and other services. Currently, the City is paying approximately \$1.7 million in debt service for public improvements that could have been financed via tax increment. If tax increment money would have been available, these financial resources would be supporting additional on-going services.

Question: *Will the City's General Fund backstop the Redevelopment Agency if it goes broke?*

Answer: No. The obligations of the Agency are not the obligations of the City. Debt issued by the Redevelopment Agency is evaluated on its own credit merits. The Agency must be able to prove its ability to pay its own debts. Investors in redevelopment agency debt understand and agree that the Agency must pay its own way and do not expect the City to provide relief.

Question: *How can redevelopment help provide affordable or senior housing?*

Answer: State law requires redevelopment agencies to spend at least 20 percent of the tax increment on affordable housing for seniors, the disabled and low- to moderate-income families. A redevelopment agency in Lodi could use that money to provide housing, subsidize rents, pay for repairs and help eligible residents become homeowners.

Question: *Doesn't the Redevelopment Agency take all the increases in property taxes from the County?*

Answer: No. State Law, (Health and Safety Code Section 33607.6) requires a percent of the growth in property tax within the Redevelopment Area be passed through to other taxing entities. The pass through amount is increased in three stages. The pass through begins at 25 percent of the total tax increment after the required amount for housing purposes is accounted for. On average, the taxing entities receive about 35 percent of the tax increment in a Project Area.

It is interesting to note that on April 17, 2007, during a discussion of the Grape Bowl, Board of Supervisors Chairman Victor Mow said, "They (Lodi) have an opportunity of a redevelopment project. They have not done so. This is a classic case of where redevelopment money might be the answer to do those things."

Question: *Does the Redevelopment Project end or sunset?*

Answer: Yes. The Agency cannot collect Tax Increment from the project for any longer than 45 years. It loses its authority to act after 30 years. Between 30 and 45 years the agency can collect debt only to fund housing programs and make payments under its obligations.

Exhibit “A”

An underlying assumption in the following schedule is that the redevelopment plan will have no eminent domain authority at all pursuant to Ordinances 1775 and 1776.

GENERALIZED PRELIMINARY SCHEDULE (DISCUSSION PURPOSES ONLY)		
Item	Approximate Date	Activity
1.	July 2007	City Council and Planning Commission hold a joint project kick-off and community forum. The forum intended to explain the Tax Increment redevelopment planning process, provide general background, get guidance from policy makers, and identify Study Area for the feasibility study. City Council may authorize execution of consultant contracts to commence study process or choose not to proceed.
2.	8/1/07	Initial field work and feasibility study started.
3.	9/6/07	First newsletter sent. This newsletter will announce the study and generally explain redevelopment and what it accomplishes.
4.	9/20/07	Hold first community meeting to explain redevelopment and how it works. Ask community to identify issues.
5.	10/3/07	City Council may formally adopt Survey Area after reviewing feasibility study recommendations, or may choose to terminate process.
6.	1/23/08	Planning Commission adopts Preliminary Plan.
7.	1/30/08	Agency prepares projections of the change in the number of residents and students within the Project Area.
8.	1/30/08	School district data requested by Agency. The districts prepare projections of any change in the need for school facilities within the Project Area over the lifetime of the plan.
9.	2/13/08	Project Area legal description and map prepared by civil engineer.
10.	2/20/08	<ul style="list-style-type: none"> • Agency sets base year for calculating tax increment. • Second newsletter sent out.

Item	Approximate Date	Activity
11.	2/27/08	<ul style="list-style-type: none"> • Preliminary plan circulated to taxing entities. • Legal description and map sent to taxing entities and State Board of Equalization. • School impact reports sent to State Department of Finance.
12.	5/12/08	County Auditor-Controller submits “base year” assessed valuation report to Agency and other taxing entities.
13.	5/21/08	Agency board authorizes circulation of Preliminary Report, Draft Redevelopment Plan and Draft EIR to taxing agencies.
14.	6/4/08	Preliminary Report, Draft Redevelopment Plan and Draft Program EIR circulated to taxing agencies and made available to the general public.
15.	7/21/08	End of Draft Program EIR review period.
16.	8/20/08	Agency re-sets base year for calculating tax increment revenues to FY2008-09.
17.	10/22/08	New “base year” assessed valuation report received from the County Auditor-Controller.
18.	1/7/09	<ul style="list-style-type: none"> • Agency Board sets joint public hearing date. • Agency Board adopts Relocation Method and Owner Participation Rules. • City Council agrees to joint public hearing date.
19.	1/14/09	<ul style="list-style-type: none"> • Planning Commission makes finding on whether the proposed Redevelopment Plan is consistent with the Lodi General Plan. • Planning Commission makes recommendation on proposed Redevelopment Plan. • Planning Commission could adjust (make Project Area smaller) boundaries at this point.
20.	1/16/09	Notice of public hearing and preliminary report sent to State Departments of Finance and Department of Housing and Community Development.
21.	2/2/09	<ul style="list-style-type: none"> • Report to City Council, Final Draft Redevelopment Plan and Final EIR available for public review. • Public hearing notices mailed out with newsletter.
22.	2/9/09	State Departments of Finance and Department of Housing and Community Development submit their comments if necessary.

Item	Approximate Date	Activity
23.	2/16/09	Final round of community meetings to explain the proposed Redevelopment Plan and explain the hearing process.
24.	3/4/09	Joint City Council/Redevelopment Agency public hearing held.
25.	3/18/09	Ordinance approving plan introduced after the Agency responds to written objections from the public.
26.	4/1/09	Second Reading.
27.	5/1/09	Ordinance approving plan is effective.
28.	6/30/09	End of legal challenge and referendum circulation period.

Major Reports and Work Products

The redevelopment planning process includes a number of major reports and work products before the City Council can go ahead with adopting the plan. Some of these are required by State law, while others are necessary for community involvement. For the most part, the Major Reports are required by the Community Redevelopment Law, while many of the Work Products are voluntary but necessary to a successful plan adoption program.

The following table shows major reports and work products, plus the estimated budget for each by involved firm. The Specialist category includes civil engineers, traffic studies, and other necessary special studies for the environmental impact report.

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
Major Reports						
Feasibility Study	This report assesses the overall feasibility of undertaking a redevelopment plan, taking into consideration the presence and extent of blight, financial feasibility, and community acceptance. Recommendations include initial boundaries, basic plan policies and whether to proceed.	\$14,000	\$7,500	\$4,000	0	\$25,500
Preliminary Plan	This is the formal initiation of the redevelopment planning process. The Preliminary Plan includes initial goals and objectives of the plan, initial detailed project area boundaries, and preliminary land use data. If Planning Commission adopts the Preliminary Plan, but the Agency decides whether to set a base year and formally circulate the Preliminary Plan.	\$3,500	0	\$700	0	\$4,200

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
School Impact Study	The school impact study is an estimate of the number of students to be generated during the lifetime of the redevelopment plan and an estimate of the new school facilities necessary. The Agency provides estimates of the number of new students, and the school districts are responsible for estimating facilities needs. This report is new in 2007.	\$1,500	\$2,500	\$750	0	\$4,750
Legal Description and Map ⁴	Often overlooked, the legal description and map is prepared by an engineer, usually costs \$10,000 to \$20,000, and is critically important in determining which land is inside and outside the project area. A poorly prepared map can keep a project from going ahead.	\$2,500	0	0	\$17,500	\$20,000
Preliminary Report	This is the major factual document for the whole redevelopment planning program. It includes lot-by-lot and building-by-building research evaluation of physical and economic conditions in the proposed project area.	\$42,000	\$7,500	\$8,500	0	\$58,000

⁴ Includes the cost of civil engineer to prepare legal descriptions and maps.

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
Preliminary Report (cont'd)	The report also contains detailed economic data and fiscal projections for the project. The proposed redevelopment program is also outlined.					
Redevelopment Plan	The Redevelopment Plan is a document that regulates the operations of the redevelopment agency in the Project Area, sets detailed goals for the redevelopment program, authorizes specific projects, and sets various limits and caps. Minimum plan limits include the time limit for the effectiveness of the plan, not to exceed 30 years, the time limit for receiving tax increment (not more than 15 years longer than the plan's effectiveness, and the maximum amount of outstanding debt at any one time. Much of the plan's content is mandated by the Community Redevelopment Law.	\$5,000	\$1,500	\$2,000	0	\$8,500

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
Program Environmental Impact Report ⁵	Environmental impact reports are required for redevelopment plan adoptions. Given the long-term character of the redevelopment program, the EIR would look at the cumulative effects of the whole program, rather than the impacts of individual projects such as road construction or a new housing tract. The EIR is distributed at the same time as the Preliminary Report and the draft Redevelopment Plan, and analyzes the impacts of the overall program contained in the Redevelopment Plan.	\$35,000	0	\$5,000	\$15,000	\$55,000
Relocation Method	As part of the redevelopment plan adoption program, the Agency has to adopt a set of guidelines for relocating individuals, families and businesses that may be dislocated as a result of redevelopment agency activities. The Agency has to have these guidelines whether or not any displacement is anticipated. They would be based upon and would be consistent with both State and Federal requirements.	\$4,500	0	\$850	0	\$5,350

⁵ Includes estimated costs of specialist studies that may be required as part of CEQA analysis.

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
Owner Participation Rules	Redevelopment agencies are required to give preference to existing owners in participating in redevelopment activities. This document details how the Agency would solicit participation, and how it would evaluate participation proposals.	\$2,000	0	\$1,500	0	\$3,500
Report to City Council	This very large document is the final report to the City Council from the Redevelopment Agency. It combines all the above reports, plus a record of all meetings and communications with others such as other taxing agencies, community meetings, interest group meetings and the like.	\$12,500	\$5,000	\$6,500	0	\$24,000
Work Products						
Newsletters	At least three, and possibly four, newsletters will be mailed out to every known resident, property owner and business in the project area. The mailings can be expanded to include all of Lodi.	\$7,500	0	\$800	0	\$8,300
Community Meetings	Community input and education is critically important to the success of a redevelopment planning program and to the ultimate success of the program's implementation. As such, the community meetings are a central	\$12,000	\$8,000	0	0	\$20,000

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
Community Meetings (cont'd)	element in the overall redevelopment planning program. The meetings will include Power Point presentations, information packages for participants, maps, presentations, and question and answer sessions.					
Community Group Meetings	These meetings are presentations to individual community organizations. The groups could include almost any interested organization, from service organizations and business organizations to church groups and fraternal organizations. Presentation materials and handouts will be prepared for each meeting.	\$5,000	\$2,000	0	0	\$7,000
Commission Representative Meetings	Representatives from City commissions or committees would meet on the planning program periodically. The purpose here is to get input from each City service group, to help identify programs, and to communicate with the overall City family.	\$5,000	\$1,000	0	0	\$6,000
Planning Commission Meetings	The Planning Commission will meet about the redevelopment planning program at least two to three times. This includes adopting the Preliminary Plan, reviewing the	\$2,500	\$1,000	\$1,250	0	\$4,750

Report or Product	Description	Estimated Budget by Firm				
		GRC	Fraser & Assoc	SYCR	Specialist	Total
Planning Commission Meetings (cont'd)	proposed Redevelopment Plan and supporting documents, evaluating consistency with the Lodi General Plan, making recommendations to the City Council/Redevelopment Agency, and initiating boundary changes as necessary.					
City Council/Agency Meetings	As the community's elected representatives, the City Council/Redevelopment Agency meet a number of times during the redevelopment planning program. At a minimum, major meetings include: <ul style="list-style-type: none"> • Kick-Off forum • Setting of base year • Adoption of Relocation Method and Owner Participation Rules • Setting of joint City Council/Agency public hearing • Joint public hearing • Ordinance adoption 	\$7,500	\$3,000	\$5,400	0	\$15,900
Expenses	Includes the cost of supplies, databases, printing, mailing, and other purchased items. Does not include travel-related costs.	\$15,000	\$1,500	\$500	\$1,000	\$18,000
Total		\$177,000	\$40,500	\$37,750	\$33,500	\$288,750