

February 16, 2011

John Shirey
Executive Director
California Redevelopment Association
1400 K Street, Suite 204
Sacramento, CA 95814

Dear Mr. Shirey:

Last week, Gus Koehler, David Gallo, and David Jones telephoned us to discuss our critique of the study the California Redevelopment Association (CRA) commissioned regarding the economic effects of redevelopment. The 2009 version of this CRA study (based on 2006-07 data) concluded that redevelopment was “responsible for supporting the employment of 303,946 individuals.”

In *Should California End Redevelopment Agencies*, we concluded that the CRA study significantly overstated the number of jobs resulting from redevelopment for three reasons. During our phone conversation, Messrs. Koehler, Gallo, and Jones explained why they thought two of our three reasons were partly incorrect. The purpose of this letter is to clarify the extent to which we agree and disagree with their observations.

LAO Criticism #1: “The study’s calculation of construction expenditures includes all construction completed in a redevelopment project area . . . even if the redevelopment agency was not a participant.”

We based this statement on the CRA study’s survey instrument which asks for (1) “the total value of newly completed” projects “built within the project areas” and (2) redevelopment agency financed construction outside of the project area. The directions in the survey instrument make no reference to limiting the data regarding project area construction activity to only those projects financed by the agency.

During our phone conversation, the researchers explained that although the survey instrument uses this overly broad language, the researchers orally and by subsequent memorandum explained to survey participants that they wanted them to include only those construction activities that the local agencies were “involved in.” While the researchers did not have any written records of these additional instructions, they assured us that the survey participants were aware that the data requested were limited in this fashion to projects with some linkage to redevelopment.

Given the importance of this matter, we asked the researchers for their definition of the term “involved in.” That is, did this term refer to financial participation or could an agency include projects for which it provided limited, nonfinancial assistance? The researchers indicated that

survey participants largely determined the range of construction projects to include. The researchers did not take any steps to review these data for consistency or accuracy, such as asking property owners if the construction data were correct or whether the redevelopment agency was “involved in” their construction decisions.

Overall, the design and implementation of the study lacked controls to ensure consistency and limit bias. The study’s stated purpose was to determine the economic effects of redevelopment, but the expansive wording of the survey instrument and lack of a clear definition for “involved in” does not carefully distinguish redevelopment-sponsored activities from activities occurring in the region for unrelated purposes. The study also extrapolates from a sample of just nine agencies (2 percent of the 397 active agencies in 2006-07) without any controls to ensure that these agencies were a representative sample of redevelopment activity statewide. Finally, we note that the webinar the researchers prepared as instructions for the use of the model repeatedly indicates that its purpose is to counter attempts of the state to “raid” redevelopment funds.

Based on the above, we would revise our conclusion to say: “The study’s calculation of construction expenditures does not carefully distinguish redevelopment-sponsored construction activity from other construction activity occurring in the project area and appears to overstate the fiscal effect of redevelopment.”

LAO Criticism #2: Assumes Private and Public Entities Participating in Redevelopment Agency Projects Would Not Invest in Other Projects.

The researchers provided no new information to suggest that this criticism is not well founded. The CRA-commissioned study implicitly assumes that, absent redevelopment, private and public entities that currently partner with redevelopment agencies on projects would not invest in other economic activities elsewhere in the state.

LAO Criticism #3: Assumes Other Local Agencies’ Use of Property Tax Revenues Would Not Yield Economic Benefits.

Our report notes that CRA’s assertion that redevelopment was responsible for creating 304,000 jobs overlooks the economic and employment benefits that would have been generated by other local agencies’ use of these property tax revenues (had the funds not been redirected from them to redevelopment agencies).

During our conversation with your researchers, they raised one objection to our criticism. Specifically, the researchers pointed out that their model distinguishes between redevelopment agencies’ spending for capital and noncapital purposes, and only counts the economic and employment benefits resulting from spending for capital construction.

While we appreciated the researchers’ explanation of their model, the fact that their study does not count the economic and employment benefits from redevelopment noncapital spending has no bearing on our criticism. Our criticism focused solely on the study’s finding that redevelopment was responsible for 304,000 jobs. This finding—drawn from the model’s calculations regarding the benefits of redevelopment agency capital spending—assumes that

these same funds would not have *any* economic or employment benefit had they been spent by non-redevelopment local agencies, an assumption that we continue to find implausible.

We appreciate the information that Messrs. Koehler, Gallo, and Jones provided and their clarification as to how the study was conducted. The information they provided, however, does not change our criticisms of the CRA study or our finding that it vastly overstates the employment effects of redevelopment.

Finally, on a related matter, we have had numerous requests for the research and academic studies referred to in our report. For your convenience, a list of the major articles is enclosed with this letter.

Sincerely,

Mac Taylor
Legislative Analyst

Enclosure

ENCLOSURE

Michael Dardia, *Subsidizing Redevelopment in California*, Public Policy Institute of California (January 1998).

Richard F. Dye and David F. Merriman, "The Effects of Tax Increment Financing on Economic Development," *Journal of Urban Economics*, 47:2 (March 2000).

Richard F. Dye and David F. Merriman, "The Effects of Tax Increment Financing on Land Use," in Dick Netzer, ed., *The Property Tax, Land use, and Land-Use Regulation* (Cheltenham, United Kingdom, Edward Elgar Publishing: 2003).

Paul F. Byrne, "Does Tax Increment Financing Deliver on Its Promise of Jobs? The Impact of Tax Increment Financing on Municipal Employment Growth," *Economic Development Quarterly*, 24:13 (2010).

Joyce Y. Man and Mark S. Rosentraub, "Tax Increment Financing: Municipal Adoption and Effects on Property Value Growth," *Public Finance Review*, 26:523 (1998).

John E. Anderson, "Tax Increment Financing: Municipal Adoption and Growth," *National Tax Journal*, 43 (1990).

Paul F. Byrne, "Determinants of Property Value Growth for Tax Increment Financing Districts," *Economic Development Quarterly*, 24:4 (2006).

Joyce Y. Man, "Fiscal Pressure, Tax Competition and the Adoption of Tax Increment Financing," *Urban Studies*, 36:7 (1999).

Rachel Weber, Saurav Dev Bhatta, and David Merriman, "Does Tax Increment Financing Raise Urban Industrial Property Values?" *Urban Studies*, 40:10 (2003).

Richard Briffault, "The Most Popular Tool: Tax Increment Financing and the Political Economy of Local Government," *The University of Chicago Law Review*, 77:1 (Winter 2010).

Brent C. Smith, "If You Promise to Build It, Will They Come? The Interaction Between Local Economic Development Policy and the Real Estate Market: Evidence From Tax Increment Finance Districts," *Real Estate Economics*, 37:2 (2009).

M. G. Boarnet, "Spillovers and the Locational Effects of Public Infrastructure," *Journal of Regional Science*, 38, 381-400 (1998).