

District Improvement Financing in Massachusetts: A Report on Challenges  
and Opportunities Based Upon the Redevelopment Experience of Other  
States with Tax Increment Finance

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## Preface

The following chapters on the use of Tax Increment Finance (TIF) across the United States for municipal development were prepared as a companion to the Citizens Housing and Planning Association (CHAPA) Workshop: *New Tools for Housing and Economic Development: District Improvement Financing, Urban Center Housing Zones, and Tax Increment Financing*, held on November 17, 2004 at Northeastern University. The CHAPA Workshop was co-sponsored by Northeastern's Center for Urban and Regional Policy (CURP). We hope that the chapters in this report will serve to better inform policymakers, municipal officials, community activists and developers to understand the national context for the use of TIF and learn from the experience of other states as they attempt to implement best practices in Massachusetts.

The report is divided into two chapters with an appendix. The first chapter, authored by Eric Nakajima, introduces basic principles and practices in the use of tax increment finance across the United States. The chapter closes with a note regarding trends in the use of TIF in the case study cities attached in the Appendix. The second chapter, authored by Robb Smith, discusses a number of issues related to community concerns and participation in district-wide redevelopment based upon his experiences with community-based organizations in Oakland, California. The Appendix, authored by Eric Nakajima (with BAE) for the District of Columbia Deputy Mayor for Planning and Economic Development, includes a series of detailed case studies describing the use of TIF for neighborhood economic development.

The authors would like to thank the Center for Urban and Regional Policy at Northeastern University for their encouragement and support of our research. We would particularly like to thank Barry Bluestone, David Soule, Heather Seligman and Sarah Heim. We would also like to thank Bay Area Economics for their support for this project. As noted above, this report is intended to serve as a companion to the CHAPA Workshop on District Improvement Financing. We would like to thank CHAPA for their encouragement for this work.

Eric would like to thank the staff at the Minneapolis Community Development Agency and the Denver Urban Renewal Authority and the City of Chicago Department of Planning & Development (TIF Program). He would also like to thank Anita Morrison and Abigail Ferretti of Bay Area Economics in Silver Spring, Maryland.

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# Chapter One: Overview of Tax Increment Finance

Eric T. Nakajima<sup>1</sup>

## I. Introduction

Tax increment finance (TIF) is a common means of allocating a portion of a local jurisdiction's tax base to fund redevelopment activities. TIF programs are established by state law and differ from state to state according to variations in state tax and property laws and redevelopment policies. Tax Increment Finance is the term that is used by all other states to describe the Massachusetts program known as District Improvement Financing (DIF). Following the national custom, the term "TIF" will be used throughout the paper to describe "DIF". The Massachusetts TIF program functions essentially as a tax abatement program and is fundamentally distinct from national TIF programs. This section contains an introduction to Tax Increment Finance: how it works; how it is used; who uses it; and what its limitations can be as a redevelopment tool. Section II describes trends and the basic context for the use of TIF across a series of national case studies conducted by Bay Area Economics in 2003 for the District of Columbia. The Appendix includes a sample of the case studies, including examples of specific projects financed through the use of TIF in Denver, Oakland, Minneapolis, Chicago and other cities.

### *The History of TIF*

Over the past 25 years, state governments have increasingly turned to TIF as a fiscal tool to support local development. California established the first use of tax increment finance in 1952. However, until the late 1970s, TIF remained a relatively minor method to raise local matching funds for federal programs. After 1980, the use of TIF expanded throughout the country, as states sought new financing mechanisms that could offset reductions in federal spending for housing and redevelopment programs.<sup>2</sup> Currently, 48 states authorize the use of TIF by county or municipal governments (Massachusetts is the 49<sup>th</sup> state). As will be described below in detail, TIF has been used to fund a wide variety of projects from affordable and market-rate housing to parking garages, office buildings, entertainment complexes and basic public works (e.g., roads and sewage systems). The common feature of state TIF laws is that most restrict the use of TIF to defined geographic districts that contain stagnant or declining property values, blighted properties and defined community needs that can be remedied through a program of public and private investments.

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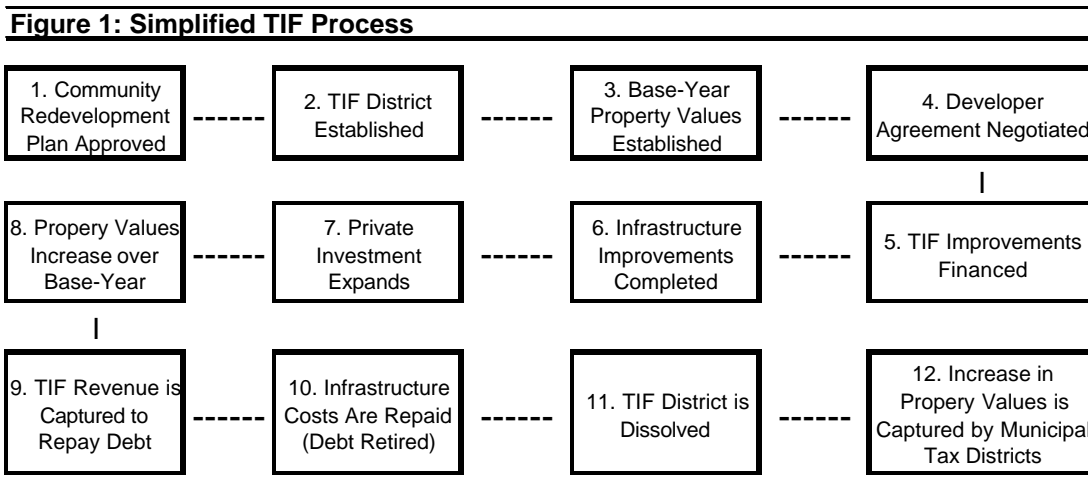
<sup>2</sup> Johnson, Craig L. and Kenneth A. Kriz, "Review of State Tax Increment Financing Laws," in C. Johnson and J. Man, *Tax Increment Financing and Economic Development: Uses, Structures and Imp act*, (SUNY Press: Albany) 2001.

## The TIF Process

Tax Increment Finance is a means of funding redevelopment activities through the allocation of part of a local jurisdiction’s annual property tax receipts.<sup>3</sup> The *tax increment* that is captured to finance public improvements is the current property tax rate applied to the difference in revenue between current property values and the property values in the year that the TIF district was established, excluding tax revenue dedicated to debt service on outstanding loans or bonds. Taxing districts (e.g., schools, city, county, water district, etc) continue to receive tax revenues generated from the base-year property assessments. In principle, the tax revenue received by the TIF district is generated through the increase in property values triggered by new public and private investment.

The tax increment revenue can be pledged to back tax-exempt revenue bonds, issued without the full faith and credit of the municipality. If property values do not increase, the municipality is not legally obligated to repay the TIF-financed debt from other local revenue. In practice, lenders often require municipalities to provide additional loan guarantees or assume that TIF debt is backed by the full faith and credit of the locality. TIF-funded improvements are considered self-financing, i.e., they generate the funds required to pay for the improvements.

A simplified TIF process, shown in Figure 1, outlines the steps typically involved in financing public improvements with TIF revenue.



Source: Eric Nakajima, BAE; 2004.

### ***TIF Districts***

TIF districts are the geographic zones in which TIF revenues are raised and TIF-financed improvements are made. Nationally, the sizes of TIF districts vary considerably. Some TIF districts comprise entire sections of cities (for example, in Oakland or Dallas), while

<sup>3</sup> Some states, including Colorado, Missouri and the District of Columbia, extend the use of TIF to include the sales tax. Most states limit the use of TIF to ad valorem (property) taxes. This primer limits discussion of TIF to cases involving ad valorem taxes.

other municipalities create TIF districts around narrowly defined project parcels. Generally speaking, the broader the TIF district, the more likely that sufficient TIF revenues will be generated to finance improvements. However, large TIF districts also loosen the causal link between public investments and the increases in property values that finance those investments. Most state laws do not limit the size of TIF districts per se; however, it is common for states to restrict the use of TIF to neighborhoods in which properties meet state definitions of blight, dilapidation, or low property values.

TIF districts are, by their nature, supposed to be impermanent. The purpose of a TIF district is to focus public resources and private investments in a distressed neighborhood for a set term of years or until the debt service on TIF-financed projects is retired. As a practical matter, most states limit the term of TIF-serviced debt to the life of the TIF district, as established by state statute. Most states limit the life of TIF districts to between 22 and 30 years.

### ***Source Revenue and Property Values***

TIF revenues are derived by applying current property tax rates to the difference between current property values within TIF district and the property values in an established base year. The common practice in most states is to define the base year as the year in which the TIF district is approved. Some states allow localities to designate an earlier year. Most states allow TIF revenue to accrue from year-to-year in specially designated funds, until projects are approved and the revenue is expended. Once the TIF district is established, the amount of revenue generated each year is dependent on changes in the assessed value of properties and the total tax rate (millage) applied to the properties.

The property tax in most localities is composed of a series of ad valorem taxes levied by different taxing districts. Local taxing authorities can include school districts, water management districts, city and county general funds, mosquito abatement districts and special assessment districts. Most states include three key provisions regarding local taxing districts: 1. all tax revenue generated by the property values in the base year continue to flow to the taxing districts; 2. all debt service on pre-existing bonded indebtedness must be paid before TIF funds are allocated; 3. some taxing districts are exempt from participation in the new TIF district. School districts are the most common taxing authority to be exempt from funding TIF districts.

The amount of TIF revenue collected by the TIF district is dependent upon the annual millage assessed by the taxing authorities that participate in funding the TIF district (the millage rate is set at \$1 per \$1,000 of property value). If state or local property tax rates are lowered, then the amount of TIF revenue collected by the TIF district will also decrease. The potential financial risk associated with property tax reform can be quite significant. In 2001, landmark property tax reform in the State of Minnesota resulted in a 40-percent drop in TIF revenues in Minneapolis.<sup>4</sup>

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<sup>4</sup> BAE conducted interviews with the staff of the Minneapolis Community Development Agency, the redevelopment branch of the City of Minneapolis, in January 2003.

### ***TIF District Governance and Redevelopment Plans***

States require municipalities to designate an agency to provide day-to-day management of TIF district activities, the negotiation of development agreements, and the expenditure of TIF revenues. In addition, states require localities to follow the ‘finding of necessity’ or blight with the preparation and approval of a redevelopment plan to remedy conditions. In most states, specific rules govern the formation of redevelopment agencies and the content and approval of redevelopment plans.

### ***Infrastructure Investments and Developer Agreements***

At the heart of the TIF process is project finance. The purpose of TIF is to generate an additional source of revenue to fund necessary public improvements. Most states limit the use of TIF to investments in public infrastructure. Infrastructure can be narrowly defined to include roadways, sidewalks, sewerage systems and parks. In most states, infrastructure is defined more broadly to include non-publicly owned housing, site acquisition and remediation, public parking garages, arts facilities (theaters), and other public buildings.

In most states, redevelopment agencies do not – by themselves – undertake the task of redeveloping blighted properties. The purpose of TIF in most states is for the redevelopment agency to act as a catalyst for private investment within the TIF district. Most TIF investments that occur are the result of cooperative investment agreements between the redevelopment agency and a private developer. Community redevelopment plans define the set of needs and conditions that the TIF process will remedy. Private developers (profit and non-profit) often initiate the redevelopment process by applying to the redevelopment agency for assistance.

### ***Determination of TIF Revenue and Retirement of Debt***

As noted above, TIF revenue is determined by the applicable property tax rates in effect and the increase in property values in the TIF district over a base year. States set the framework for the application of ad valorem taxes, and localities approve tax rates through annual public processes established by local governments. Individual property tax bills are determined by applying the tax rate to the appraised value of the property in question, less any applicable exemptions.

### ***Retirement of Debt***

All states with TIF allow the use of debt to finance improvements in TIF districts. It is most common for states to require that the first dollar of TIF revenue be pledged toward repayment of any outstanding debt, up to the required annual debt service. Once the annual debt service has been paid, any additional funds may be pledged toward additional payment of the debt; used to fund other projects authorized in the redevelopment plan; or returned to the taxing authorities in the proportion that they pay into the TIF district.

## II. Context and Trends for the Use of TIF in Case Study Cities

### TIF Trends

- Across the following case studies, Developer Reimbursement (Pay-As-You-Go TIF Notes) is the favored method of financing projects.
- Developer Reimbursements are popular in many cities with TIF programs because they offer the public transparency: clear costs, clear benefits, and clearly defined financial risks.
- Even cities that use Developer Reimbursement still use bonds for large, difficult to finance projects.
- The accumulation of TIF revenue from year-to-year can be controversial because, in the absence of a specific project and tangible development, it represents a clear diversion of tax revenue out of the general fund or other tax districts (Chicago specifically noted this problem).
- Cities use TIF revenues to cross-subsidize projects. This is particularly useful when excess revenue from a commercial property is used to subsidize affordable housing or a cultural center. Where cross-subsidy is done with TIF, it is frequently explicit (i.e. the two projects are bundled together for public discussion, with clear costs and TIF revenue estimates for each project).
- TIF projects often involve partnerships between multiple city agencies, the developer(s), state and federal agencies and sometimes community groups. Large or particularly challenging TIF projects (including mixed-use or transit-oriented developments) often layer funds from multiple sources, including: state and federal agencies, private lenders, equity partners and tax credit syndicators.
- Successful neighborhood development projects often take years to finish (from the initial planning to occupancy permit).

### The Context for the Use of TIF in Different States

The cities in the case studies all use tax increment financing to support neighborhood economic development. However, there are significant differences between the cities as to how they organize their redevelopment programs. There are three major reasons why the programs differ, as follows:

1. The different fiscal, legal and political contexts of the states can lead to programmatic variations in the cities. Cities are creatures of state law and operate under a variety of constitutions, enabling acts and systems of state and local property, sales and income taxes.
2. The redevelopment programs of the cities were created at different points in time to address problems that were largely perceived in a local or regional context (i.e. a response to the hollowing out of Midwestern manufacturing jobs, the desire to fix up this or that section of a city or a response to specific development opportunities). State and federal law has changed considerably over the years, as has the level of federal support for housing and redevelopment activities. The



evolution of municipal redevelopment programs can be seen as a response to this larger economic and political context.

3. To some extent, the programmatic differences between cities may reflect their geographic location. Western cities have expanded their city limits through annexation, while mid-west and eastern cities are more built-out.

### **TIF & the Planning Process**

Generically one can say that cities authorize the use of tax increment finance through a two-step process that involves the redevelopment department or agency, the planning department, the City Council, developers, private lenders and the public. The first step involves the creation of a redevelopment plan for a neighborhood or corridor. The second step involves the creation of a TIF district with specific reference to a project or projects to be supported by TIF revenues. Dallas and Oakland are exceptions to this rule, as they create redevelopment plans that authorize the use of TIF within specified sections of their cities. In both cities, individual project agreements make reference to the existing TIF plans but do not require the reauthorization of the use of TIF per se.

***Redevelopment Plans.*** A number of cities limit the use of TIF to areas that have established neighborhood redevelopment plans. In the case studies, these cities include Oakland, Dallas, Denver, Minneapolis, and Chicago. Cities often allow TIF districts and redevelopment plans to be approved simultaneously. Redevelopment plans linked to TIF districts are typically required to include:

- A formal description of the redevelopment area, including its demographic and physical characteristics and the level of economic activity or property tax generation;
- A statement of redevelopment objectives, including plans for public improvements, the role of private investment, and the public benefits to be obtained through fulfillment of the plan;
- Substantive neighborhood input or review of the redevelopment plan prior to City Council approval.

***TIF Districts.*** TIF Districts and Development Agreements are often approved simultaneously. Apart from Dallas and Oakland, cities typically create TIF districts that are limited to a project area (which may include a series of parcels within a multi-block area). Cities that allow TIF revenues to accrue from year-to-year may create a TIF district around parcels and then shop for developers (example: Chicago & Kansas City). TIF District Plans have the following characteristics:

- TIF districts are established for a set life [defined by state statute] of 20 to 25 years;
- TIF plans make explicit reference to the Redevelopment plan and the neighborhood or public objectives to be served through establishment of the district;
- TIF District boundaries are tightly drawn, to establish a clear nexus for redevelopment activities;

- A baseline is established for projecting TIF revenues, with explicit reference to the revenue generating capacity of specific projects, if any.

***Development Agreements.*** Development agreements, whether they include a subsidy in the form of a land write-down, TIF loan, TIF bond, TIF note or developer reimbursement, include a stable set of features:

- The TIF subsidies (including bonds) do not involve the full faith and credit of the City. Repayment is limited to redevelopment funds drawn from TIF;
- The TIF subsidy is limited to the amount of TIF revenue that the project is likely to generate;
- The agreement includes a But/For analysis showing that the project would not occur without a subsidy;
- The redevelopment agency strictly limits the TIF subsidy to less than half of the total project cost (often the TIF subsidy is limited to 25 to 33 percent);
- With TIF Reimbursements, the City is not responsible for the repayment of the developer's outstanding debt if TIF revenues from the project are insufficient to repay the approved public costs during the statutory life of the TIF district.

### **Common Trends in the Administration of TIF Programs**

- Redevelopment agencies commonly charge developers for the full administrative costs of establishing TIF Districts. This includes the City's costs for consultants and attorneys.
- Many redevelopment agencies receive a set annual administrative fee equal to a percentage of the TIF revenue generated by the TIF District at the close of the previous fiscal year. For example, the City of Denver's fee is set at one percent of TIF District revenue.
- City departments that receive administrative fees out of TIF revenues often have those fees deducted from their General Fund operating support. Some agencies are entirely self-supporting out of TIF administrative fees and other charges to developers (such as application fees).

## Chapter Two: Community Concerns in Redevelopment Planning

Robb Smith<sup>5</sup>

### Introduction

This brief chapter is intended to be a guide for policymakers and community activists for implementing District Improvement Financing (DIF) in Massachusetts based upon California experiences with neighborhood or district-wide redevelopment planning. I have been working with community groups on redevelopment planning processes and projects in Oakland, California for the past four years. Some of the following comes out of my dissertation research and some comes out of my practical experience as a legal and planning technical assistance provider and from my work with the Urban Strategies Council. Hopefully, this chapter will be a useful and accessible work for policymakers and activists to use as “food-for-thought” in considering community issues.<sup>6</sup>

DIF is a redevelopment tool.<sup>7</sup> It is analogous to California-style Community Redevelopment in that it (1) uses area-wide districts, (2) allows the use of tax increment

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<sup>5</sup> The author is a doctoral candidate in the Department of City and Regional Planning at the University of California, Berkeley and has a MS in Labor Studies from the University of Massachusetts, Amherst, a MCP from the University of California, Berkeley, and a JD from the Cardozo School of Law, and is currently employed as a Program Associate at the Urban Strategies Council, coordinating the Council’s Redevelopment Education and Advocacy Program.

<sup>6</sup> Anyone interested in more scholarly discussions of the issues discussed herein can feel free to contact me for sources and bibliographies at [robt\\_w\\_smith@yahoo.com](mailto:robt_w_smith@yahoo.com)

<sup>7</sup> Conceptually, redevelopment can be thought of as a basket of tools used to facilitate land recycling. Redevelopment refers to the legal, political, and financial ways in which public and private interests work together to re-use, re-build, and re-engineer urban land. The Community Redevelopment Law (CRL) is the legal code that governs and regulates redevelopment activity in California. The CRL authorizes cities and counties to create redevelopment agencies (RDAs) that can identify blight, use tax increment financing, buy and dispose of real property, and use eminent domain to acquire and assemble land parcels. Redevelopment operates on the principle that, due to *blight* or *obsolescence*, certain urban neighborhoods face barriers to revitalization that the market or the government cannot alone address. Therefore, public intervention into markets with the participation of capital is necessary to accomplish the elimination of blight or the upgrading of uses from obsolete to productive.

The purpose of the law is to provide affordable housing, jobs, business opportunities, safe and healthy communities. The intent of redevelopment, however, is to facilitate new development. (It is not to facilitate new development in blighted neighborhoods; it is to facilitate new development, period. *Blight* is simply the justification for employing the tools of redevelopment.) The driving forces in redevelopment are capital and the state (in this case, as manifested in city or county government – however, the State of California is in many ways a silent partner in this effort since redevelopment provides “new” revenue streams that help mitigate demands for state assistance to cities, as well as creating a pot of revenue that the state can access to address its own fiscal crises as necessary). Redevelopment is a framework for capital and state to collaborate on new development. The motive for capital is higher rents. The motive for the state is increased tax revenue.

Redevelopment could be used to either revitalize or gentrify a neighborhood. Revitalization refers to the provision of public services and physical improvements to benefit the already-existing residents of a neighborhood. Gentrification refers to the provision of public services and physical improvements designed to attract new residents either at the expense of the already-existing residents or without regard for

financing (TIF), (3) is designed to spur private economic development within the district, (4) allows the use of eminent domain and other land acquisition and write-down authority, (5) can issue bonds without popular vote. As a result, the experience of redevelopment planning in California may be useful to understanding, anticipating, and planning the use of DIF in Massachusetts. Clearly, there are differences in the local context, but since California has been using DIF-type redevelopment for decades there may be some important lessons to learn and certainly there are pitfalls to avoid.

DIF is not identical to California redevelopment, however. There are important differences. For instance, DIF creates a Bond Fund Committee which is an inferior division of municipal government. California state law requires the creation of Redevelopment Agencies which are legally distinct single-purpose governments. Unlike DIF, there is no state oversight concerning the creation of redevelopment project areas in California. DIF limits to 25% of land in town can be TIFed; entire cities can be made redevelopment project areas in California. DIF does not require housing; the Development Program (Massachusetts' version of California's "Redevelopment Plan") must address housing, but not do anything about it. The provision of affordable housing is one of the main stated objective of the CRL and, despite the failures of many redevelopment agencies to comply with the law, there are important housing requirements in California redevelopment planning.

The most important recurring problem in California redevelopment is the question of whether it works. Redevelopment agencies typically report only what is required by state law and do not engage in evaluation of projects to ensure that public investments are working as intended. In fact, redevelopment agencies do not tend to be very specific about what is "intended" by redevelopment. So the first question we have to ask is: **who is it we intend to benefit from redevelopment?** From this, we can better evaluate whether redevelopment does benefit who it is intended to benefit. And that is the question evaluation must address: **who benefits from redevelopment?**

There are two different eras of urban redevelopment. There have been two distinct eras, which I call 1<sup>st</sup> era and 2<sup>nd</sup> era redevelopment. The 1<sup>st</sup> era was the 1950s-1970s urban renewal era which was a highly elitist (in the urban politics sense) strategy that involved physically clearing entire blocks and people from cities and, although often speaking to commercial projects, rested on the assumption of the city in the industrial political economy. The 2<sup>nd</sup> era arose out of the failures of the 1<sup>st</sup> in which growth machine planning abuses blew up into fierce community battles over use values. The 2<sup>nd</sup> era begins also in the realization that the American industrial city is a thing of the past and that the political economy is now postindustrial. Whereas the political rationale for 1<sup>st</sup> era redevelopment was the elimination of blight, the rationale for 2<sup>nd</sup> era redevelopment is making productive use of obsolete sites.

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the needs of the already-existing residents. It is in the interests of capital and the state to gentrify rather than revitalize, and the evidence thus far is that redevelopment has largely been used to facilitate gentrification.

This rationale for 2<sup>nd</sup> era redevelopment is complementary to calls for Smart Growth planning. As a result, the growth machine has moved on from controversial plans to raze existing buildings/blocks/neighborhoods and has looked to vacant or obsolete parcels with an infill strategy to convert the working class industrial city into the middle class residential and amenity city. Smart Growth becomes an operating principle – or at least a primary rationale – for growth machine developers and allies to blunt community opposition to (or concern about) major development projects. This combination of 2<sup>nd</sup> era redevelopment realities, growth machine development opportunities, and Smart Growth rationales, leave low-income communities little political leverage. The new growth machine redevelopment strategy provides mixed-uses, more housing, transit-oriented development, environmental remediation, and urban beautification. It just does so in a way that increasingly privileges middle class newcomers at the expense of low-income residents.

### **I. What are the issues of concern to the residential community?**

The range of issues of concern to residential communities in redevelopment is not surprising to anyone familiar with the problems of urban communities. I have tried to organize them here into four categories: (1) Housing; (2) Economics; (3) Fiscal; and (4) Environmental. There are certainly more issues, but there is not the space in this memo to be exhaustive. The fiscal issues are covered in the previous chapter. The environmental comments are much briefer than they should be because (1) the issues are so complex they deserve more space than this memo can offer and (2) Massachusetts already has a strong Brownfields program that appears to address community environmental issues as well, if not better, than California. The brief discussion of these points that follows is intended to highlight them for policymakers to consider in creating Development Programs under DIF. With that in mind:

#### **1. Housing**

Massachusetts and California have analogous housing problems. Each is a wealthy state with limited supply of housing relative to demand. Housing prices have risen significantly – and constantly – since the mid-1990s. Although rents have fluctuated more – and have at times come down – it is expensive to rent a house or apartment in both states. The CRL provides several important mechanisms to address the housing issue:

- a. An affordable housing fund – The CRL requires that the first 20% of TIF collected be directed to a Low and Moderate Income Housing Fund. Redevelopment agencies must then use the Housing Fund to produce, preserve, or maintain affordable housing units in the city. Cities may increase the amount of the set-aside. In Oakland, the amount is 25%.
- b. Production housing requirements – Fifteen percent of all housing units built in a redevelopment area must be affordable to low and moderate income households. The agencies have the discretion to produce the units in the manner they see fit.
- c. Replacement housing production – California redevelopment agencies are required to replace affordable housing units that are lost during the tenure of the redevelopment plan. Once again, agencies have the discretion to produce the units in the manner they see fit.

- d. Required inclusionary housing – Housing projects that are carried out by redevelopment agencies or receive subsidies from them must include a minimum percentage of units affordable to low and moderate income households. A number of these units must be affordable to low income households (to ensure that not all inclusionary units are built for moderate income households).
- e. Homeownership programs – the CRL, which generally prohibits the use of TIF for programmatic uses, does allow redevelopment agencies to create and pay for programs designed to increase or assist homeownership in a district. Types of homeownership programs may include subsidies or loans to potential buyers or programs designed to meet the specific needs of low and moderate income tenants in the district in making the transfer to homeownership.

There are some concerns about how the housing provisions of the CRL operate in real life. First, there is great concern among many that, despite recent amendment to the CRL confiscating Housing Fund money from agencies that do not use it, very little of the housing set-aside money is put to use producing new units. Second, because agencies have such wide discretion about where and when they will produce new and replacement affordable units decisions about planning and building these units sometimes appear to be deferred indefinitely. Third, the inclusionary housing provision only applies where redevelopment agencies are the developer or subsidize projects. A developer refusing direct subsidy from the redevelopment agency is under no obligation to provide affordable units.

## 2. Economics

Perhaps the most important community issue area – arguably, it is second behind housing – is what might be generally considered “economics.” Communities understand district-based redevelopment to be a strategy to facilitate economic development for distressed neighborhoods. As a result, residents are concerned with what some are now calling fair and effective economic development (FEED). This is sometimes also called equitable development, accountable development, or high-road economic development. FEED is a term that fairly accurately captures the concerns of residents: redevelopment should be an economic development strategy that is (1) **fair** to the existing residents of the neighborhood by providing them (a) job opportunities and career ladders, (b) jobs at living wages, (c) small businesses opportunities, and (d) retail services that reflect community needs; and (2) **effective** in the sense that public investment be planned and implemented in a way that correlates with development realities.

## 3. Fiscal

Another important community concern is about the nature of tax increment financing itself. This concern can be broken into three specific questions: (1) Does TIF take money away from schools and city services? (2) Will TIF really pay for itself over time? (3) Is TIF just a subsidy to developers? See the previous chapter for a discussion of these questions.

#### 4. Environmental

One of the most important concerns of low-income urban (and rural) areas concerns the degree to which the land, groundwater, and air is polluted. TIF brings the promised of additional money dedicated to a particular area which could be used to clean-up contaminated toxic sites. California has addressed this issue by adopting legislation popularly called the Polanco Redevelopment Act which gives redevelopment agencies additional powers to deal with environmental contamination.<sup>8</sup> Although it has not been widely used to date, it does offer some suggestions for how Massachusetts could combine its Brownfields program with DIF to facilitate the process of cleaning-up polluted sites.

## **II. Community Empowerment and Problematic Experiences from Redevelopment in East and West Oakland, 2000-2004**

Redevelopment project areas in West Oakland and Central City/East Oakland were adopted in 2003. These are new projects and were adopted through processes that were (or should have been) informed by the mistakes of the past. But what was at work here was an elitism tempered by the capacity of the project area to respond. Despite the fact that there were indigenous calls for redevelopment in each area (by the business community in East Oakland and by some community activists in West Oakland), the decision to redevelop was made at a high level in the city's bureaucracy after initial consultations with representatives from the business communities. In many ways, this decision to redevelop appears to have been made by a classic elite-style urban regime process. However, California law now requires a degree of public participation that was not required in the days of urban renewal. So the city was forced to negotiate with representatives of the project areas during the planning process. But since these representatives were not provided any legal means to veto the process (although held some persuasive political power because councilors did not want to support a plan opposed by the representatives) and since the discourse of inevitability reified the belief that the "redevelopment train was leaving the station," there was no serious opposition to redevelopment itself. The planning process (from formal initiation to plan adoption) took more than three years in West Oakland and about a year in East Oakland. There were at least three planning reasons why the residents of either project area had little say in their

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<sup>8</sup> The Polanco Act was adopted in 1990 to provide redevelopment agencies with a tool to help them and developers to navigate the "liability trap" created by "brownfield sites." According to the U.S. EPA, a "brownfield site [is] real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant." Various federal and state laws make land owners responsible for the clean-up costs of (certain) toxic contamination on their property. The uncertainty of the cost combined with the fear that a site may be contaminated often contribute to the decision of developers not to redevelop urban property. The Polanco Act gives an RDA two additional powers related to toxic contamination: (1) the power to investigate private property for contamination and (2) the power to direct or conduct remediation of contamination.

First, the Act permits the redevelopment agency to investigate private property for toxic contamination before the property is acquired. Property owners are required to provide the agency with existing environmental information, but the agency can further require owners to conduct additional investigations and provide it with the new information. Second, the Act facilitates the ability of the redevelopment agency to direct or conduct environmental remediation. It permits the agency to act as environmental regulatory agency with the power to conduct remediation and recover costs for it.

own redevelopment: fictional geography; property-driven stakeholder participation; withholding of information.

(1) Fictional geography:

While classic examples of redevelopment disasters of the past (e.g., Boston's West End and San Francisco's Western Addition) occurred in recognized community geographies, Oakland chose to use fictional geographies for its current redevelopment projects. In both of these cases, it is important to identify the geographies as project areas rather than neighborhoods. Neither project area is a discrete neighborhood, or even a logical grouping of neighborhoods. The West Oakland project area was roughly a "greater West Oakland" geography, but many folks from the western part of the area thought that the eastern part was actually North Oakland. This identity problem created some friction among community members during the planning process, but it was not as significant a distraction as it might have otherwise been because residents understood that there was a perception that West Oakland was a neighborhood that was "inside the freeways" and for that reason they had some experience in understanding their common interests in dealing with the city. Central City/East Oakland project area was an entirely fictional political geography. It cut across five city council districts (West Oakland was entirely within one city council district) and sliced through discrete neighborhoods such as Fruitvale and Lower San Antonio (the discrete neighborhoods with the West Oakland project area were largely included intact). In any given neighborhood or council district redevelopment was only occurring in a part of it. This made it difficult for any community organization or city councilor to take ownership of the process and provide leadership. As a result, it was difficult for any given activist or political leader to see redevelopment as an important enough issue that he or she should devote dear time and resources to.

(2) Property-driven stakeholder participation:

The official public participation process utilized in both project areas was the Project Area Committee (PAC). The PAC process was institutionalized in law in the early 1990s after major amendments were made to California's Community Redevelopment Law in response to perceived abuses of eminent domain and lack of transparency and participation by local redevelopment agencies. According to the CRL, the redevelopment agency must create a PAC for a project area if its redevelopment plan will allow the use of eminent domain over residential housing in a neighborhood consisting largely of low and moderate income residents. A PAC is a stakeholder process that requires elected representatives of three constituencies: business owners; property owner residents; and tenant residents. Also, "organizations" must be represented, but may be appointed by the city. In both project areas, the city of Oakland took the path of least resistance and created PACs (even though it was highly unlikely that there would be eminent domain over any residential housing in either project area) and distributed the seats on the PACs in equal proportions by constituency. The inclusion of organizations on the PACs was done in a way to privilege homeowner associations. As a result, in West Oakland, an area in which nearly eighty percent of the residents are tenants and low income, the PAC was composed of two-thirds propertied interests and one-third non-propertied interests. (If organizations are factored in, propertied interests have an even larger proportion because a majority of them are homeowner and business organizations.) The result of



this method was to have two PACs representing very poor areas that were concerned only with increasing property values and the wildly unrealistic goal of turning thousands of very poor renters into homeowners. In West Oakland there was some organized opposition to the PAC as undemocratic (to which at least two members of the Planning Commission, who were concerned that redevelopment was being used only to help property owners, agreed at a public meeting). In East Oakland, where the business community had lobbied the city for redevelopment, the PAC rubber-stamped the redevelopment plan and allowed a fast track adoption process to occur before many residents of the project area even knew it was happening.

(3) Withholding of information:

It is perhaps a truism that the only real power planners have is in their ability to control, distribute, and withhold information. The city of Oakland is notorious for its refusal to provide adequate and necessary information. This information hoarding was a bigger problem in East Oakland redevelopment than it was in West Oakland redevelopment, but only because the activists in West Oakland were adept at demanding information at the threat of causing disruptions to the process. West Oakland was also able to rely on outside allies in the nonprofit and academic sectors to help craft effective strategies to obtain information. Still, the business community received far greater attention and information from the city than did the residential community. In East Oakland, a few poorly advertised and attended meetings were held by the city to explain redevelopment. The city hired a consultant who admittedly knew little about the law and almost nothing about the city's intentions to explain the process to the community. This created an information hoarding on two levels. First, the poor outreach that was done for the meeting prevented the community from receiving information about the meeting itself. Second, the hiring of a consultant ignorant of the issues to inform the community prevented even the accidental release of information. The importance of withholding information is that it prevents the grassroots from organizing to oppose the city's vision of redevelopment. One cannot oppose something one does not know exists. There is also the question of efficiency in adopting the redevelopment plan. Since redevelopment in California is based on the use of two public tools, eminent domain and tax increment financing, the less time spent debating either the better. The less reflection on eminent domain means that it is more likely to be adopted in a form desired by the city and, perhaps more importantly from the city's perspective, the earlier the base year for tax increment financing can be "saved" the more likely it is that redevelopment will produce higher tax increment over time. These were both perceptions of Oakland redevelopment planners, but they were not necessarily true understandings of the problems of adopting either tool. The experience of West Oakland confirmed the planners' fears of information provision. West Oakland took three-and-a-half years to negotiate a redevelopment plan, during which time the city invested much time and resources into information provision and in the end did not receive the eminent domain authority desired and had to settle for a tax increment base year two years later than initially planned. From all appearances, the planners got just what they wanted in East Oakland, where the process took about a year and during which time the planners provided no meaningful information to the community.

### **III. Do we know whether redevelopment works in California?**

Not really, because redevelopment agencies do little, if any, evaluation of projects (even ones that get significant subsidies). For this reason, organizations like the Los Angeles Alliance for a New Economy, Working Partnerships USA in San Jose, and the East Bay Alliance for a Sustainable Economy in Oakland have researched and written reports on who is benefiting from redevelopment in different cities.<sup>9</sup> There is suspicion that redevelopment agencies do not evaluate their projects because they are afraid of the community reaction should it appear that redevelopment has done little more than subsidize the profits of wealthy developers. But it could be that redevelopment agencies do not have the resources to conduct such evaluations, and it could be that redevelopment agencies do not actually have a clear idea of what their reasons are issuing subsidies. There may also be an additional problem, which is related to reformism, which is the circular reasoning used by “experts” that since they are doing what the law allows them to do, they are doing what they are supposed to be doing, and anything else would be inefficient or unnecessary. Whatever the case, it is a foolish way to govern. The government, not just its citizens, needs to understand whether its programs are working or not. Why would any government want to throw money at a problem in a manner that is costing more than it is solving? Maybe redevelopment subsidies or TIF in a particular case will make things worse rather than better. Does anybody want that to happen?

### **IV. Some recommendations (or at least things to think about):**

1. Avoid California’s Redevelopment Planning Problems:
  - Avoid the use of fictional geographies to the extent practicable.
  - Avoid the use of property-based stakeholder participation (in fact, avoid stakeholder participation altogether – use democratic participation).
  - Do not withhold information.
  - Set explicit (and honest!) goals and objectives for what the municipality wants to accomplish through the use of DIF. Avoid vague and universal terms; they can not be measured and consequently there is no accountability. Be specific! Who is intended to benefit? Who will benefit?
  - Try actual planning. California redevelopment is replete with plans, but none them are actual comprehensive or master plans for the district. The Redevelopment Plan is nothing more than an enabling document which allows redevelopment to proceed. The Implementation Plan is nothing more than a list of projects and financing methods. Of course, both of these plans could be so much more if redevelopment agencies insisted on it. A specific land use plan for a district is an essential step in providing the information necessary to make informed decisions on what redevelopment tools will be necessary to implement redevelopment.

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<sup>9</sup> These publications can be found, along with plenty of other important work and information about community concerns and economic development, at [www.laane.org](http://www.laane.org); [www.wpusa.org](http://www.wpusa.org); and [www.workingeastbay.org](http://www.workingeastbay.org).

- Use participatory planning processes such as charettes. Give the process plenty of time to allow residents to understand what is at stake and articulate their visions.
  - **EVALUATE** the progress of DIF districts and projects! If you do nothing else, then make sure there is an evaluation process. This will help you know what works, what does not, and whether the implementation of the program is achieving the desired results.
2. Explore the opportunities of the law
- The law and its proposed regulations do little in the way of restricting innovative practices and therefore allow municipalities to incorporate many community concerns into the DIF Development Program and related plans.
  - Work with other land use tools, such as overlaying Smart Growth Zoning with DIF.
3. Plan Regionally and Locally
- Encourage regional strategies that link up community development with regional economic development.
  - Bridge the “wicked problem” of linking economic development and workforce development. The revitalization of neighborhoods is not just about economic and housing development, but it requires workforce development to prepare residents for higher and better labor force participation. Workforce development must be linked with economic development in order to ensure that the residents are trained for jobs that actually exist, and cities need to attract businesses that have jobs for which their residents can qualify. This is, of course, easier said than done, but municipalities must make a priority of solving this problem. Because the economy operates regionally rather than within local boundaries, cities must plan together on a regional basis and place their DIF districts within the goals and objectives of this regional plan. Regional strategies that include business, community, labor, and government are necessary to use DIF to help resolve the economic-workforce development divide.
  - Include school and other infrastructure agencies in the planning and implementing of the Development Program.
  - Municipalities should partner with, or require developers to partner with, strong CDCs and CBOs in order to ensure local involvement in the development process and maintain a focus on the needs of existing communities.
  - DIF districts should be planned and should be consistent with citywide, regional, and statewide planning goals and objectives.
  - Engage in comprehensive planning, not just in DIF districts but citywide and regionally. Look to the Cape Cod Regional Plan as a model.
4. Do not support tax reforms that will encourage the fiscalization of land use.
- The use of “point-of-sales” sales tax returns, coupled with Proposition 13 restrictions on the ability of municipalities to collect property taxes (which are significant even in comparison to the restrictions under Proposition 2

½), create incentives for cities to favor big box retail development and other high-sales tax generating activities, such as car dealerships.

### **Conclusion**

The issues discussed in this chapter only begin to cover the challenges of community concerns that may – and in California, often are – raised in the planning and implementing of DIF-style redevelopment. Issues concerning eminent domain usage, school infrastructure and planning, and environmental justice were only brushed on or not even discussed above. The point of this memo is to get policymakers and activists thinking about the myriad challenges and opportunities present in DIF-style redevelopment, and to encourage decision-makers to think proactively about using DIF as a tool not just to facilitate bricks-and-mortar urban development, but to address the housing, jobs, and other needs of affected low and moderate income residential populations. Massachusetts has the opportunity to begin its district-wide redevelopment planning by being comprehensive and innovative, and using this tool along with other new land use tools to revitalize, rather than gentrify, distressed urban communities.

## Appendix I. Case Studies in the Use of TIF for Economic Development

Eric T. Nakajima<sup>10</sup>

### Chicago

*The Chicago Tax Increment Financing (TIF) program includes a blend of area-wide TIF districts and TIF districts that conform to project boundaries. The trend is toward project-specific TIF districts that fund developer improvements with repayment from TIF revenues. This approach has the benefit of minimizing the City's risks. Funding is limited to the financial gap estimated by the City. The City's 130 TIF districts involve a range of industrial, retail, office, hotel and residential developments.*

The City of Chicago's Tax Increment Financing (TIF) program is administered by the City of Chicago Department of Planning & Development. Tax increment financing is used throughout the city to support the City Council's economic development agenda for industrial retention and expansion, housing, and neighborhood retail services. The TIF program was initiated in 1977 following the passage of Illinois' *Tax Increment Allocation Redevelopment Act*. Chicago has created TIF districts of varying sizes, from a few hundred acres to the footprint of a single building. There are currently 130 TIF districts in the City of Chicago.

#### TIF Districts

TIF districts are created through the cooperation of the Department of Planning & Development, the community and developers, and the approval of the City Council. The Department of Planning & Development (DPD) forms a redevelopment plan for a property or area that is adding less than its share of City taxes due to outdated stock, underutilization, dilapidation or vacancies. The DPD holds public hearings and, following a review, the City Council authorizes the creation of a TIF district. The size of new TIF districts is typically limited to the parcels to be redeveloped or a corridor of blocks directly surrounding the project. TIF revenue for projects is generated off of increases in the value of the property tax. The designation of a TIF district freezes the Equalized Assessed Value (EAV) of the property at its base year. The DPD may negotiate project agreements concurrent to approval of a TIF district or afterward. The DPD is permitted to rollover revenue within a TIF district until the funds are needed for a project. The DPD offers project financing following an in-house analysis of the developer's costs, and an estimate of projected TIF revenues that will be conducted by the DPD or outside consultants. The City tries to limit public support to no more than 25

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<sup>10</sup> The following case studies were prepared by Bay Area Economics for the District of Columbia Deputy Mayor's Office for Planning and Economic Development (2003). BAE Senior Associate Eric Nakajima researched and authored the case studies. Thanks to BAE Principal Anita Morrison for her guidance and assistance.

percent of total development costs. By State law, TIF districts dissolve after 23 years, reverting tax revenues to their original funds. In the past, the DPD reimbursed itself for administrative costs through TIF district revenues. In the future, the DPD will charge developers for the costs associated with forming a TIF district, including feasibility studies, lawyers and staff time.

### **TIF Financing**

The City of Chicago finances TIF projects through one of two means. The most common method currently used is Pay-As-You-Go TIF Notes. The second means, used less frequently, involves City issuance of a bond for the project, supported by projected TIF revenues. TIF Notes are less politically charged due to their nature of strictly limiting contributed public dollars to the actual tax increment generated by the TIF district. At present, the DPD has limited the creation of new TIF districts to projects in which the developer pays up-front costs for establishing the TIF district, there is a predictable projected stream of TIF revenue, and the method of financing uses TIF notes to place the speculative burden on the developer. This in-house policy was adopted to limit the use of public dollars during the City of Chicago's current budgetary crisis.

**TIF Notes.** Pay-As-You-Go TIF Notes are legally binding promises by the City to reimburse developers for approved project costs out of the tax increment revenue stream. Developers raise up-front funds by arranging private loans supported by the TIF Notes. The City only pays for the developer's costs out of the actual tax increment that flows into City funds from the TIF district. The City is under no obligation to pay for the developer's costs if the tax increment revenues are insufficient to fully fund the TIF Note. The Department of Planning & Development limits the use of public funds to the amount of the project's estimated financial gap. TIF Notes have the benefit of keeping the financial risk of redevelopment almost entirely with the developer. The TIF Note process is much simpler and less expensive, avoiding the underwriter fees of a revenue bond.

### **The Results**

As of 1998, the City of Chicago had successfully used TIF for residential, commercial and industrial development. TIF revenues supported the creation of 665 rental units and 342 owner-occupied units. The City also triggered the development of 550 new hotel rooms, 1.2 million square feet of retail space, two new parking garages and 3.6 million square feet of new office space. For every one dollar of TIF revenue, the City of Chicago leveraged approximately six dollars in private investment. Up to 1998, the City of Chicago created \$270 million in additional tax revenues (over the base revenues) from redevelopment activities in TIF districts<sup>11</sup>. This revenue was used to repay TIF notes and bonds.

### **Specific Projects**

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<sup>11</sup> Source: City of Chicago Department of Planning & Development, *Review of Tax Increment Financing in The City of Chicago*, July 1998.

**Irving-Cicero TIF District.** The TIF district is located in the Six Corners area of three residential communities in Northwest Chicago. Area residents lacked a full-sized grocery store and sufficient neighborhood retail stores. The TIF district was created in 1996 to clean-up and redevelop adjoining vacant properties into a neighborhood shopping center. The total TIF district consisted of 23.88 acres. In 1997, the developer started construction on a 117,000 square-foot strip mall at a total project cost of \$19.3 million. The City contributed \$3.7 million in the form of a Pay-As-You-Go TIF Note.

Today, the Six Corners area is home to a fully-tenanted shopping center with a large supermarket, and Marshalls, Kay Bee Toys and Blockbuster Video stores. From a base EAV of \$8.2 million in 1996, the tax revenues in the Irving-Cicero TIF District have grown by \$6.5 million to a total current EAV of \$14.7 million for the 2001 tax year. In addition, 200 new jobs have been created in the neighborhood.

**95th & Western TIF District.** This TIF district is located in an up-and-coming residential neighborhood on the Southside of Chicago. The neighborhood has a sufficient customer base to support additional retail in the area, however the commercial strip located in the TIF district contains dilapidated storefronts and buildings. The 95<sup>th</sup> & Western TIF District was established in 1995 to redevelop one of the area's larger buildings with a retail tenant. The TIF district consisted of the parcel to be developed. In 1998, Borders Books and Music decided to redevelop the building into a 25,000 square foot-store. The total cost of the project was \$5.9 million, with the City contributing \$1.6 million in the form of a Pay-As-You-Go TIF Note.

Today, the Borders Books and Music Store is a successful retail operation with 28 new jobs in the neighborhood. In its base year of 1995, the TIF district had an EAV (assessed value) of \$16 million. In 2001, the TIF district's EAV had grown to \$20 million.

**Lawrence-Broadway TIF District.** The City Council created this TIF district in 2001 to redevelop the Goldblatt's Department Store Building and the adjacent Leland Building in the Loop. The Goldblatt's Building will be renovated to house 37 lofts and a Borders Books and Music store on the ground floor. Borders has signed a lease in advance of construction to open the store. The Leland Building will be renovated by a different developer to house 133 single-room-occupancy units of residential housing. The total project cost of the Goldblatt's Building is \$24.3 million, with the City contributing \$6.9 million in the form of a Pay-As-You-Go TIF Note. The total project cost of the Leland Building is \$12.3 million, with the City contributing \$955,000 through a Pay-As-You-Go TIF Note. The City's support for the Goldblatt's Building was designed to allow surplus tax increment revenues from the building to support the payback of the TIF Note on the Leland Building.

The Lawrence-Broadway TIF District projects are currently under construction. No final project data is available. However, the assessed value of the TIF district has already increased. In its base year of 2001, the TIF district had an EAV of \$38.6 million. The current EAV for the TIF district is \$44 million – an increase of \$5.4 million in assessed value.

## **Kansas City**

*The City of Kansas City, Missouri Tax Increment Financing (TIF) Program utilizes TIF districts that are either project-specific or encompass small sections of neighborhoods. The City relies most heavily upon Pay-As-You-Go TIF Reimbursements to support projects, though it does use bond funding for large developments. Kansas City raises TIF revenues off of its property tax, sales tax and city earnings tax.*

Since 1982, Kansas City, Missouri has made extensive use of tax increment financing for redevelopment activities. Currently, there are 44 tax increment financing plans in Kansas City. In Missouri, TIF plans can set aside up to 50 percent of the City's share of the sales tax increment in the TIF district, as well as up to 100 percent of the property tax increment. Kansas City and St. Louis also have City earnings taxes of one percent of gross earnings for all city residents and employees; up to 100 percent of these incremental revenues also can be set aside. In addition, the State of Missouri offers an additional incentive called SuperTIF. Under SuperTIF, those TIF districts that are already receiving the maximum local tax increment benefit are eligible to receive 50 percent of the State's share of the sales tax increment. The SuperTIF program is capped at an annual State appropriation of \$13 million. TIF payments from all sources are never allowed to exceed the approved project costs at the time the TIF plan is adopted.

### **TIF Districts**

Under Missouri law, municipalities seeking to use TIF for redevelopment purposes must establish Tax Increment Financing Commissions. TIF districts are approved for a period of no more than 23 years. TIF projects are designed to redevelop designated blighted areas by supporting private investment primarily through public investments in infrastructure, land assembly and environmental mitigation. TIF funds may be used for private improvements; however, this is not the norm. TIF districts range in size from one or two parcels to multi-block areas constituting sub-sections of neighborhoods. Once TIF districts are established, excess TIF revenues are allowed to rollover within separate reserve accounts until project costs are repaid. TIF districts are dissolved once all projects within the district have been completed & loans repaid. Redevelopment projects differ by location from the construction of parking structures in the downtown, to site assembly for neighborhood anchor retail stores, to new roads and public works near the city limits.

**Program Administration.** The Tax Increment Financing Program is administered by the Economic Development Corporation of Kansas City, Missouri (EDC). No provision is made in State law for the method of funding or staffing the administration of TIF programs. Kansas City administers its TIF program through a 501(c)(3) financed by the City's general fund, fees from the EDC's predevelopment consulting services, and a five-percent fee on all tax increment revenue flowing in from Pay-As-You-Go TIF projects. The EDC tries to include its five percent administrative fee as a cost for bonded projects. The EDC has been able to include the fee in developer-raised bonds but has been unsuccessful in including this fee in City-issued bonds.



## **TIF Financing**

TIF projects are funded primarily through the use of Pay-As-You-Go TIF Reimbursements. Out of 44 TIF districts, approximately nine TIF Districts have used either publicly or privately issued bonds. The EDC tends toward the use of TIF reimbursements to shift the financial risk of projects from the City to developers. The EDC faces consistent political pressure to justify the diversion of tax dollars away from the general fund and TIF reimbursements mitigate the public's concern. However, the upfront financing of projects under Pay-As-You-Go TIF Reimbursements is dependent upon private lenders' assessment of a project's viability and the developer's track record.

**Pay-As-You-Go TIF Reimbursements.** Under this system, the EDC and the developer agree upon a set of approved costs that the City will reimburse as the tax increment develops. All sales, property and earnings taxes are paid into the City's general fund, with any tax increment set aside in a reserve for the TIF district. As the project is completed, the developer presents to the EDC proof of site improvements and costs as agreed in the TIF plan. The EDC then reimburses the developer for approved costs out of the district's TIF reserves.

## **The Results**

To date TIF projects have created 1,422 new housing units, 1,704 new or rehabilitated hotel rooms, 2.4 million square feet of retail space and 5.4 million square feet of office space. The City estimates that it has created or retained 107,079 jobs, representing \$2.6 billion in aggregate new or retained payroll. In 2001, TIF districts generated \$18.2 million in tax increment revenues over their base years. This figure was \$2 million above City projections. In 2002, TIF districts generated \$23.3 million in incremental revenues – \$1 million over projected revenues.

## **Specific Projects**

**Midtown TIF District.** The TIF district is located in a low-income residential neighborhood that lacked a supermarket or sufficient retail services. The neighborhood was declared blighted due to abandoned and dilapidated properties along with the presence of adult entertainment stores in a residential neighborhood. The TIF Commission created the Midtown TIF District in 1993, with work beginning in 1995 and substantial construction beginning in 1999. The plan called for the demolition of 140 properties within the 22-acre TIF district and the development of a shopping center anchored by a supermarket and a Kmart. TIF Funds were to be used for site assembly and preparation, store relocation, street and sidewalk improvements, and other public infrastructure. The plan also set aside TIF funds for the rehabilitation of single-family homes on residential streets adjacent to the TIF district.

Overall, the project took eight years to develop and required the cooperation of the EDC, the Midtown Redevelopment Corporation, the City of Kansas City, and the participating businesses. In 2000, the City raised \$45 million in bonds, backed by a \$1.464 million UDAG grant, proceeds from State bonds, a City advance, and Section 108 funds. A

consortium of private lenders loaned the Midtown Redevelopment Corporation \$1 million for housing rehabilitation, to be repaid through TIF funds.

To date, the Midtown TIF has completed construction at its two project sites, with over 370,000 square feet of new retail space, fully-leased and open. The first site includes Costco and Home Depot stores with over 400 new jobs. The total development cost was \$68 million with the City contributing \$34 million in TIF funds. The second site includes a supermarket and Hollywood Video, GNC and Boston Market stores with over 200 new jobs. The total development cost for this site was \$9.3 million with the City contributing \$1.5 million in TIF funds over 20 years. To date, 45 loan applications have been received in the TIF district's target area for the City's housing rehabilitation program. According to the City, the increase in assessed value for the TIF district (including both sites) is \$5.6 million.

**43rd & Main TIF District – H & R Block Project.** This project is part of the overall plan to redevelop a multi-block employment center adjacent to residential neighborhoods. Completed as of 2001, the H & R Block Project was designed to retain and expand the corporate offices of H & R Block. The total development cost for H & R Block's expansion was \$13.3 million. The City contributed \$685,000 in TIF funds in the form of Pay-As-You-Go TIF Reimbursements. Approved project costs included street and sidewalk improvements and site improvements. H & R Block created 2,500 square feet of retail space and 3,200 square feet of green space in addition to its building expansion. No TIF funds reimbursed the construction costs for H & R Block's building.

The project resulted in the creation of 507 new jobs and the retention in the city of a total payroll of \$152 million. In addition, the H & R Block property has increased in assessed property value by \$3.9 million. The TIF reimbursements for the project have been fully paid.

## Denver

*Since the 1990s, Denver has used Tax Increment Financing (TIF) generated from its property and/or sales tax to fund redevelopment activities in its Downtown. The City has used bonds to finance large redevelopment districts; however, it has recently preferred to fund projects through Pay-As-You-Go TIF Reimbursements. Newly formed TIF districts tend to conform to the project areas. The City is currently emphasizing redevelopment projects in Denver's neighborhoods.*

The Denver Urban Renewal Authority (DURA) undertakes redevelopment activities on behalf of the City of Denver, Colorado. DURA has had the legal authority to use Tax Increment Financing since its formation in 1958; however, it only began to use TIF aggressively in the 1990s. Under Colorado law, cities can use property and/or sales tax in TIF districts. DURA has used Tax Increment Financing to support either publicly-issued bonds or Pay-As-You-Go TIF Reimbursements. TIF districts may be created only within established redevelopment areas that are blighted under standards set by Colorado law. As of 2002, there were 25 redevelopment areas in Denver.

### **TIF Districts**

A TIF district may be created for a period of up to 25 years. The boundaries of TIF districts are drawn as narrowly as possible to limit the TIF revenue stream to the funds necessary to support the gap in project financing. Excess revenue from TIF districts must be returned to the City's general fund annually. TIF districts can only pay for approved project costs and must dissolve once all project costs have been paid. In practice, TIF projects are financed on the basis of a 25-year-life. The full costs of establishing a TIF district, including feasibility studies, attorney's fees and staff time, are charged to the developer. In addition, DURA charges an origination fee equal to 1.5 percent of the cost of the TIF support, payable at the beginning of the project. DURA also receives an annual administration fee equal to one percent of annual TIF revenues from the TIF district. DURA has historically focused its redevelopment activities in Denver's downtown. TIF projects have included the creation of a downtown entertainment complex, a hotel, residential apartments and lofts, and a parking garage. The City's new community revitalization plan will emphasize development in areas outside of the urban core and fund housing, mixed-use projects and transit-oriented developments.

### **TIF Financing**

DURA has used TIF funds to pay for bonds as well as Pay-As-You-Go TIF project reimbursements. The use of bonds decreased during the late 1990s due to a lawsuit challenging the legality of diverting property taxes into TIF projects. Following a State court decision upholding the legality of TIF programs (the Tabor decision); the City of Denver expects to authorize new TIF projects using bond financing. DURA prefers to use Pay-As-You-Go TIF Reimbursement for projects whenever possible to limit the City's risk and ensure that the developer performs as expected. DURA also finds that TIF Reimbursements can result in better planning. The City's experience with large TIF districts in the downtown (typically created to support bonds) led to DURA's concern

that broad districts capture too much of the City's TIF revenue without creating clearly defined benefits that can be predicted with certainty. DURA finds that the public benefits of project-based TIF districts that use TIF Reimbursements are easily explained to the City Council and defended publicly.

## **The Results**

The use of TIF in Denver has been particularly successful in revitalizing the city's downtown. According to DURA's 2002 Annual Report, the City has used \$273.5 million in public funds to leverage over \$1 billion in private investment. The City has helped create 1,565 new residential units, preserve 11 historic buildings and rehabilitate 2,890 single-family homes.

## **Specific Projects**

**Denver Dry Building.** Built in 1889, the Denver Dry Building is a historic, brick and limestone commercial building located in the downtown. DURA purchased the Denver Dry Building in 1988 after it was threatened with demolition. DURA worked with its partner agencies and developers to plan a three-phase redevelopment of the building to include retail, office and residential space. The Denver Dry Building, as completed, includes 51 rental apartments, 66 for-sale luxury residential lofts, 28,700 square feet of office space, and 115,000 square feet of retail space. Current tenants include the flagship store of the REI outdoor sporting goods company. The total project cost for the Denver Dry Building was \$47.7 million. DURA issued \$8.6 million in TIF bonds, which netted \$6.7 million for the project.

During phases one and two, the development team for the Denver Dry Building project consisted of the Denver Building Housing L.P. and the Denver Dry Retail L.P. The Denver Dry Housing L.P. was composed of the Federal National Mortgage Association and the Denver Dry Development Corporation, a 501(c)(3) formed by DURA. Denver Dry Housing L.P. hired the Affordable Housing Development Corporation (AHDC) to develop the housing. Denver Dry Retail L.P. affiliated with AHDC during both phases to construct the retail space. BCORP Holdings, Inc. developed the luxury lofts during phase three.

To illustrate the complexity of TIF project financing, table 1 shows a financial breakdown for the Denver Dry Building project.

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**Table 1: Denver Dry Building Financial Breakdown**

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**Acquisition Loan**

Consortium of local private funding institutions	\$7,500,000
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**Development Funds**

Colorado Housing and Finance Authority/Bank One	\$3,043,000
Federal National Mortgage Association	\$3,435,000
Department of HUD	\$4,856,000
Denver Urban Renewal Authority (DURA)	\$7,640,000
Rocky Mountain Investors	\$2,500,000
Tax Credit Purchaser	\$1,291,000
Affordable Housing Development Corporation	\$885,000
Colorado Historical Society	\$60,000
Waxman/First Interstate Bank	\$2,000,000
First Bank of Republic Plaza	\$2,963,000
BCORP Denver Dry, LLC	\$1,393,000
Private Lender (Construction of Lofts)	\$10,167,000
<b>Total</b>	<b>\$47,733,000</b>

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Source: DURA; BAE, 2003.

**California Street Parking Garage.** The project supported the redevelopment of historic buildings in the downtown for office, residential and retail uses. The garage, constructed in late 1998 on the site of a surface parking lot near the Denver Dry Building, provides 339 parking spaces on nine floors. DURA provided \$2.1 million in the form of a Pay-As-You-Go TIF Reimbursement toward the total project cost of \$5.8 million.

## **Minneapolis**

*The Minneapolis Tax Increment Financing (TIF) program relies on TIF districts that conform to project boundaries and are used to fund either commercial or residential developments. The City favors the use of Pay-As-You-Go TIF Notes to reimburse developers for approved project costs. Minneapolis has lost approximately one-third of its TIF revenue due to a FY 2001 statewide property tax reform. The City is carefully reviewing its support for new TIF districts given its current financial constraints.*

Established in 1981, the Minneapolis Community Development Agency (MCDA) is the legal entity empowered by the City of Minneapolis to form redevelopment areas and use tax increment financing. Since 1986, the Minneapolis City Council has served as the Board of Commissioners of the MCDA for the purposes of approving project area plans, TIF districts and individual projects. The MCDA is composed of both the City's housing authority and redevelopment agency. Minneapolis uses TIF bonds and Pay-As-You-Go TIF Notes to finance its housing and economic development activities. TIF revenue in Minnesota is generated by the property tax. In 2001, the State of Minnesota approved a property tax simplification law that sharply reduced statewide property tax rates, thereby decreasing TIF revenues in Minneapolis by more than one-third. MCDA has not defaulted on any of its outstanding obligations. However, the Agency has limited the formation of new TIF districts and favors the use of TIF notes (over bonds) as a means of limiting the City's financial risk in new development activities. Due to the loss of TIF revenues associated with the State's reduction in property taxes, MCDA has received an operating subsidy from the City for FY 2003 and FY 2004. After FY 2004, MCDA will revert to being entirely independent of the City's general revenues.

### **TIF Districts**

TIF districts may be created for a period up to 25 years. TIF districts in Minneapolis are formed within the boundaries of redevelopment areas, called Project Areas. Project Areas may be created prior to the establishment of a TIF district, or the two may be created simultaneously. The boundaries of TIF districts are smaller than the Project Area boundaries and tend to be limited to the parcel(s) to be developed. The process of creating a TIF district involves four steps. First, a developer approaches the MCDA and presents an application with a nonrefundable check for \$1,000. MCDA's financial analysts will review the feasibility of the project and project the probable tax increment within the proposed district. Second, the Board of Commissioners will review the project and offer its preliminary approval. Third, the MCDA will conduct a formal analysis of project costs, including MCDA's costs of forming the TIF district, and hire consultants as necessary to conduct market analyses. Fourth, MCDA will negotiate an agreement with the developer, pending final approval by the Board of Commissioners. MCDA requires the developer to pay for all staff time, outside attorneys and consultants, and administrative costs of forming the TIF district, regardless of whether the TIF district is given final approval by the Board of Commissioners. Under State law, MCDA is allowed to retain up to 10 percent of annual TIF revenues for administrative costs after paying annual debt obligations. Any additional funds are passed through to the City's general fund.

## **TIF Financing**

The City of Minneapolis offers TIF financing through either MCDA issued bonds or Pay-As-You-Go TIF Notes. The TIF Notes are a promise to pay the developer a set dollar amount for approved project costs, distributed annually from the TIF district's revenues over the life of the district. Payments are made according to a schedule, following either the bond document or an agreement with the developer. MCDA is not responsible for repayment of TIF Notes if TIF revenues fall short of projections. Approved costs may be adjusted during the first five years of the life of the TIF district; afterward any additional costs must be born by the developer. MCDA favors the use of TIF Notes over bonds because TIF Notes shift the financial risk of projects to the holder of the Note. In its subsidy programs MCDA attempts to recapture public subsidies, to the extent possible, through the use of repayment provisions triggered by sale or refinancing, subordinated loans, long-term ground leases or equity participation.

## **The Results**

No available information provides a historical overview of Minneapolis' use of TIF or other redevelopment funds. As of 2002, MCDA highlights 28 recently completed projects including mixed-use developments in the downtown and neighborhoods, housing projects from the rehabilitation of single buildings to the construction of new urban villages, and industrial retention and expansion projects located near the downtown.

## **Specific Projects**

**Grant Park.** This is a mixed-use, transit-oriented development project located on the former site of a vacant warehouse and gas station. The project features market-rate, owner-occupied residential units and retail space. The site is within walking distance of the downtown and near multiple modes of public transportation. The development includes 47 three-story townhouses, and a 27-story tower with 291 condominium units, 98,000 square feet of retail and service space, and a 642-space parking structure.

Grant Park was privately financed and developed at a total development cost of \$90 million. MCDA invested \$7.3 million in the form of a Pay-As-You-Go TIF Note and an additional \$300,000 through a Neighborhood Revitalization Program Grant. Construction began on the project in the fall of 2001. TIF funds were used to acquire the property, demolish buildings and prepare the site, relocate utilities and pay for the cost of constructing parking spaces. To date, the townhouses are finished and occupied. Construction has started on the condominium tower and retail space, with completion expected by the summer of 2003.

**East Village.** This is a mixed-use development featuring affordable and market-rate housing and neighborhood-serving retail stores. It is located in the Eliot Park neighborhood at the edge of downtown Minneapolis, on 11<sup>th</sup> Avenue between 8<sup>th</sup> & 9<sup>th</sup> Streets. East Village includes 40 affordable housing units, 139 market-rate housing units and 5,500 square feet of retail space. The apartments range in size from studios to four-

bedroom units. Construction began on the project in 1999 and was completed in fall of 2001. All of the affordable and market-rate residential units are occupied. Two of the three retail spaces have been leased to a local coffee shop chain and a convenience store. Approximately 2,000 square feet of retail space remains to be leased.

The Mayor and City Council of Minneapolis view the East Village project as a success and a model for future mixed-use developments along planned light-rail lines. The project was initiated when the Augustana Care Corporation, a non-profit nursing home and assisted-living facility, wished to develop vacant land that it owned near its building. MCDA recommended that Augustana partner with local non-profit developer Central Community Housing Trust. The developers worked with local residents to design a housing and retail project that met local needs. Community support for the project was very strong. The Eliot Park neighborhood jump-started financing of the project by pledging \$500,000 of its Neighborhood Revitalization Program funds (a City grant program) to the developers. The developers worked with MCDA to arrange financing for the remainder of the \$34 million total development cost. Table 2 outlines the sources of funding for the East Village project, as follows:

<b>MCDA Investment</b>	
Home Funds	\$1,287,053
Tax Increment Financing	\$3,000,000
Housing Revenue Bonds	\$12,235,000
Low Income Housing Tax Credits	\$724,000
Community Development Block Grant	\$30,000
Leveraged Investment Funds	\$550,000
Community Economic Development Loan Fund Loan	\$340,000
Urban Revitalization Action Program Loan	\$60,000
MCDA 1st Mortgage (FHLB)	\$2,649,789
Common Project – TIF	\$800,000
<b>Other Sources of Funding</b>	
Minnesota Housing Finance Agency/Family Housing	\$1,565,000
Eliot Park Neighborhood Revitalization Program Grant	\$500,000
Minnesota Livable Communities Grant	\$550,000
Augustana Care Corporation	\$325,000
Central Community Housing Trust (CCHT) Loans	\$3,475,000
CCHT Deferred Developer Fee	\$327,375
Syndication Equity	\$5,401,193
DTED	\$300,000
Augustana Care Corporation	\$168,000
<b>Total</b>	<b>\$34,287,410</b>

Source: MCDA; BAE, 2003.



## **Dallas**

*The City of Dallas Tax Increment Financing (TIF) program relies upon broad, neighborhood-wide TIF districts to raise a pool of revenues with which to fund public infrastructure in redevelopment areas. Projects are funded based on Development Agreements in which developers are reimbursed out of TIF revenues for approved expenditures for infrastructure related to private developments.*

The City of Dallas, Texas has seven TIF districts, the oldest of which was formed in 1989. TIF districts are formed for a period of 20 years and funded by revenues generated by the property tax. TIF districts are not project specific. The City draws TIF district boundaries to encompass entire sections of the city, based upon a declared need to stabilize the tax base and reverse urban blight. At present all of the TIF districts are located in or adjacent to the central business district. Under Texas law, TIF funds can only be used to support public infrastructure costs such as roadways, streetscape improvements, environmental abatement, public parking, and water and sewage works. TIF funds can also be invested in affordable housing, as well as land assembly and clearance for private developments.

### **TIF Districts**

TIF districts are created by an act of City Council and governed by an appointed Board of Directors. The Economic Development Department (EDD) creates Preliminary Plans for the formation of a TIF district, including overall goals for the number of housing units and square footage of retail and office space. The Board of Directors is composed of five appointees from the City Council and representatives of the affected taxing districts, including the schools and water district. The EDD develops TIF revenue projections for each of the TIF districts, including annual adjustments based upon completed projects. Given a projected pool of TIF revenue for each district, the EDD then estimates the revenue available to support new projects. The Board of Directors has the responsibility of reviewing the TIF district's plans and forwarding the plans to the City Council for final approval. The extent of public support for individual projects is based upon negotiations between the EDD and developers. The EDD's administrative costs for supporting a project are repaid through the TIF revenue stream. Currently, the EDD's TIF staff is entirely supported out of TIF district revenues.

### **TIF Financing**

TIF districts in Dallas exclusively use Pay-As-You-Go TIF Reimbursements; the sole exception is the City Center TIF District, which has issued a bond for downtown development activities. Bond financing was rejected for most of the TIF districts because the EDD determined that the TIF revenue streams would not be sufficient to support the issuance of bonds. The EDD considers the use of Pay-As-You-Go TIF reimbursements to be highly successful. Developers initiate TIF projects by submitting an application to the EDD. The EDD evaluates the viability of the project and its conformity with the TIF

District's redevelopment objectives. If a public investment is deemed warranted, the EDD signs a Development Agreement with the developer that functions as a TIF note. Next, the EDD puts the public works component of the project out to bid. When the bid is accepted, the developer pays the City an amount equal to the cost of the project, which is placed into a reserve account and used to pay the contractor. The EDD certifies the completion of approved project activities and repays the developer out of TIF district revenues, according to the terms of the Development Agreement. TIF Reimbursements are typically completed within three years of the start of a project construction.

## **The Results**

The seven TIF districts vary in age, from a base year of 1989 for the State-Thomas TIF District to a base year of 1999 for the Farmers Market TIF District. Results vary across the TIF districts and are reported in Annual Reports by TIF district. Following are descriptions of three of the TIF districts.

**Cedar TIF District.** This TIF district is comprised of 247 acres near southern edge of the downtown. The land is zoned for residential, commercial and industrial uses with large amounts of vacant land. Since its formation in 1992, the Cedar TIF District has 13 major projects. In total, the TIF district has supported the creation of 26 new apartments, 455 lofts, and 74,000 square feet of industrial space. Current projects include the construction of the Dallas Police Headquarters near a new light-rail station. The assessed value of the TIF district in 2001 was \$42 million, which represented a \$6.8 million increase over the 1992 base year with \$2.5 million of the increase in assessed value occurring between the 2000 and 2001 tax years. Currently, the TIF district receives \$123,500 in TIF revenues.

**Cityplace TIF District.** The TIF district includes 238 acres of land located one mile north of the downtown. The area is zoned for mixed-use development of high-density office, residential and commercial uses. The Cityplace TIF District has supported 26 major projects since its formation in 1992. The TIF district benefits from its location near a state highway and the construction of a light rail station within its boundaries. TIF revenues have supported the construction of over 1,200 apartment units, including a \$760,000 TIF investment to construct 232 apartment units at the Gables at Turtle Creek. The total project cost was \$15 million for an investment ratio of 1:19.7. A recent TIF supported project is the upscale mixed-use residential community of West Village. West Village was completed in 2002 and includes a six-screen movie theater, 150 apartments, and 150,000 square feet of retail space. Retail tenants include Banana Republic, Ann Taylor Loft and the Gap. Other retail projects have included a Target Department Store with a \$676,000 TIF investment on a project cost of \$5.6 million and an Office Max store with a TIF investment of \$258,000 on a project cost of \$5 million. For the 2001 tax year, the assessed value of property in the Cityplace TIF District was \$212.2 million. The 2001 figure represents a \$38 million increase over the 2000 tax year and a 371-percent increase over the 1992 base year. The projected tax increment for 2002 is \$2.6 million.

**State-Thomas TIF District.** Located north of downtown, the TIF district was the first of Dallas' seven TIF districts to be established. City Council formed the State-Thomas TIF District in 1989 with the stated goal of revitalizing its property tax base. The City

decided to use TIF funds to create a pedestrian-friendly residential community convenient to the downtown and the city's light-rail system. The State-Thomas TIF District directly supported 11 residential developments. A total of 15 projects have been completed or are under construction, for a total of 2,238 new residential units since 1989. The 1989 State-Thomas TIF District Project and Financing Plan stated the goal of developing 3,840 residential units by 2009. The TIF district has accomplished 58 percent of its goal with another 209 units currently in the approval stage. The EDD invested \$457,000 of TIF revenue into the Worthington, a 332-unit apartment building with a total development cost of \$20 million (an investment ratio of 1:43). The EDD invested \$1.2 million of TIF revenue into Block 572 of the Heights of State-Thomas, a 196-unit apartment building with a total development cost of \$14 million (for an investment ratio of 1:11.6).

The State-Thomas TIF District has an assessed value of \$274 million in the 2001 tax year. Property in the TIF district has increased in assessed value by \$227.5 million since the 1989 base year – a 479-percent increase. In 2002, State-Thomas TIF District revenues were projected to be \$6.2 million. The TIF district has been successful at meeting its target for the creation of residential units. However, to date the TIF district has failed to meet its stated objectives for office and retail space. The TIF district has only constructed 20,000 of the 140,000 square feet of retail space originally projected in the 1989 Project Plan. The TIF district has failed to construct any of the 600,000 square feet of office space foreseen in 1989.

## **Oakland**

*Oakland, California utilizes Tax Increment Financing (TIF) through its Redevelopment Agency, which operates development programs in designated areas that encompass large sections of the city. The Agency raises bonds supported by TIF revenues from the property tax, and uses the proceeds to fund public infrastructure, land acquisition, and loan and grant programs to redevelop underutilized parcels.*

The City of Oakland formed its Redevelopment Agency in 1956. The Agency has been empowered from its inception with the authority to use tax increment financing from increases in the assessed value of commercial property. Under California law, the Redevelopment Areas can only be formed in places that are blighted under terms defined by statute. Over the past 25 years, the California Legislature has increasingly restricted the purposes to which redevelopment dollars may be used. Many of these restrictions are peculiar to California's circumstances, and are a result of the fiscal impact of the property tax reform known as Proposition 13. Oakland has a total of seven Redevelopment Areas. Three of the Redevelopment Areas, Central District, Coliseum and Broadway-MacArthur, comprise entire sections of the city. The four remaining Redevelopment Areas are small, isolated districts with few current projects. The City is currently in the process of establishing two new large Redevelopment Areas. The City finances public infrastructure, land assembly and loan programs in the Redevelopment Areas through the sale of public bonds, backed by TIF revenues. By law, Oakland is required to set aside 20 percent of all TIF revenues for the City's affordable housing fund.

### **Redevelopment Areas**

The City Council establishes Redevelopment Areas following a series of public hearings and the development of a Redevelopment Plan that documents the blighted nature of the area and outlines the public objectives that will be financed through tax increment financing. The Redevelopment Areas are administered by the Redevelopment Agency, which is formally independent of other City departments. The City Council is required to designate an Agency Board to govern redevelopment activities. In practice, the Oakland City Council has appointed itself to sit as the Redevelopment Agency's Board. The Redevelopment Agency currently has a staff of 40 people funded entirely from tax increment revenues in the Redevelopment Areas. The Redevelopment Agency funds projects through bond issues that capitalize loan funds and support land acquisitions, public improvements and grant programs. The Redevelopment Agency issues new bonds as the previous bonds are retired or when favorable financial markets or increased TIF revenues allow for additional bonded debt.

### **Redevelopment Programs**

The Oakland Redevelopment Agency (ORA) has a series of programs designed to support the revitalization of Redevelopment Areas. Projects may be initiated by developers who seek financial support from the ORA; however, the Agency's staff attempts to initiate redevelopment activities through outreach to property owners. Among its programs, the Redevelopment Agency offers developers a dollar-for-dollar

match for the renovation of historic properties. The ORA has a Tenant Improvement Fund, in which property owners are offered grants to assist prospective tenants with renovations to retail space. The Redevelopment Agency provides tax rebates up to 100 percent of the property tax for private improvements deemed publicly necessary, including the construction of parking spaces and expanded retail space. The Agency negotiates the tax abatement level on a case by case basis, analyzing the developer's internal rate of return and offering the minimum financial relief deemed necessary for the project to go forward. The City also uses TIF revenues to acquire properties for resale to developers at a nominal or written-down price. The Redevelopment Agency also funds direct loans to developers and provides streetscape improvements and other public works within its districts.

## **The Results**

Redevelopment activities in California are controversial due to the size of TIF districts and the perception that too much tax revenue is diverted from the general fund and other tax districts. This is true despite modifications to California law increasing the level of "pass-through" revenue to schools and other funds and the specific obligation to set aside funds for the construction of affordable housing. Despite widespread support for ORA activities to revitalize the City's downtown, there is deep public concern that the City is ignoring neighborhood needs. One popular Agency priority is the creation of mixed-use transit oriented developments near Bay Area Rapid Transit (BART) stations. The Redevelopment Agency is currently supporting the construction of a mixed-use transit oriented development in the predominantly Latino, working class neighborhood of Fruitvale. Development of the Fruitvale Transit Village is led by a local Latino community organization, the Unity Council, and has required years of work by the Unity Council, BART, and the City of Oakland. While the Fruitvale Transit Village is currently under construction, the Redevelopment Agency is also working with BART to plan two more transit villages. This section focuses on the Central District Redevelopment Area and follows with a closer look at the redevelopment of Swans Marketplace.

**Central District Redevelopment Area** The Central District is comprised of 828 acres in 300 City blocks, encompassing the entire central business district down to the waterfront in Jack London Square. The priority redevelopment areas include the City Center, Chinatown, Old Oakland and the Retail Center. The Oakland Redevelopment Agency has issued a series of bonds to finance activities within the Central District. The redevelopment area, as amended in 2001, has a life of 45 years and is set to expire in 2046. The most recent issue is a \$120 million bond (January 2003) that will retire four outstanding bonds, with \$25 million remaining to finance projects after funding required reserves. The base year for TIF property value assessments is FY 1969, with an increase in assessed property values as of FY 2002 of \$1.8 billion. Annual TIF revenue in FY 2002 (less the Housing set-aside and pass-through taxes) was \$23.4 million. The Central District has two legally-mandated caps that limit the amount of project spending and the gross amount of TIF revenue that can be received by the district. The bond cap limits bonded debt to \$100 million at a given time (as of FY 2000). The Central District is limited to a gross amount of \$1.3 billion in TIF revenues over the life of the

redevelopment area. At the end of FY 2002, the Central District had received \$333.3 million in TIF revenue.

Oakland Mayor Jerry Brown has made a priority of increasing the number of Oakland residents in the downtown. Since 1998, the Redevelopment Agency has supported the construction of 1,055 new residential units, with 394 units under construction and another 1,687 units under application. Other accomplishments listed by the Redevelopment Agency include a 470,000 square-foot office building developed by the Shorenstein Company, a 1,452-space parking garage owned by the Agency, and Chinatown's Pacific Renaissance Plaza, which includes 100,000 square feet of commercial space and 500 parking spaces. The City of Oakland's market for retail, office and residential space lags behind the City of San Francisco. The Redevelopment Agency has expressed concern that the current economic downturn will negatively impact plans to expand commercial office and retail space in Oakland. The market for housing in the Bay Area is still strong, and the residential units planned for the Central District are expected to move forward.

### **Specific Projects**

**Swans Marketplace.** Swans Marketplace is an historic building located within the Old Oakland section of the Central District Redevelopment Area. The Oakland Redevelopment Agency purchased the building in 1989 using the Central District's TIF revenue. In 1994, the Redevelopment Agency issued an RFP for the development housing on the Swans Marketplace site and three surrounding blocks. The East Bay Asian Local Development Corporation (EBALDC) partnered with another local developer to present the only plan that preserved the Swans Marketplace block. The City chose EBALDC to develop Swans Marketplace, with 38 units of housing and 30,000 square feet of retail space. The housing was divided into affordable housing and a co-housing project, and the retail space includes an Italian grocery, five restaurants and Oakland's Museum of Children's Art. The Swans Marketplace redevelopment received seven state and national awards for outstanding adaptive reuse, best mixed-use project and excellence in community design. According to the Redevelopment Agency, Swans Marketplace has had some difficulty maintaining full-occupancy of retail space. The City believes that Swans Marketplace might be better served if EBALDC turned over the retail space to a professional management company.

The development of Swans Marketplace was accomplished by splitting the development into multiple parcels, eligible for funding under different programs. The Redevelopment Agency transferred the \$2.4 million property to EBALDC free of charge, and contributed \$200,000 worth of streetscape improvements. The Agency also loaned the project \$1.9 million at three-percent interest for 30 years. The total cost of the project, excluding the land was \$25.8 million. Table 3 outlines the sources of funding for the renovation of Swans Marketplace, as follows:

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**Table 3: Swans Marketplace Financial Breakdown**

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**Swans Marketplace LLP (Commercial & EDA Parcels)**

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Wells Fargo	\$3,350,000
Oakland Redevelopment Agency	\$1,150,000
HHS - OCS Grant	\$500,000
Economic Development Administration Grant	\$1,700,000
Prepaid Rents	\$1,700,000
Capital Campaign Donations	\$1,150,000
StanCorp Mortgage Investors	\$3,500,000
Historic Tax Credits	\$2,100,000

**Swans Market LP (Rental Housing)**

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Wells Fargo	\$1,561,830
Fannie Mae PRI Loan	\$200,000
Oakland Redevelopment Agency	\$600,000
Alameda County HCD	\$500,000
AHP Grant (Citibank)	\$90,000
Fannie Mae Grants	\$65,000
California Housing Finance Agency (CHFA)	\$730,000
CHFA Tax Credit Bridge Loan	\$775,000
CHFA - HAT Loan	\$240,000
Tax Credit Purchase	\$1,350,000

**Innovation Homeownership (Condominium)**

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Wells Fargo	\$2,810,000
Old Oakland Group LLC	\$315,000
Oakland Redevelopment Agency	\$750,000
Proceeds from Sales	\$675,000
<b>Total</b>	<b>\$25,811,830</b>

Source: Bruner Awards; BAE, 2003.