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Urban Renewal:

What's It All About?

By Earl Newkirk

Earlier we listed some of the methods by which the city could finance its one-third share of any loss which may be involved in carrying out an urban renewal project such as our San Lorenzo park project. We also said we'd attempt to explain each a bit more fully.

One possibility mentioned was that of the redevelopment agency issuing its own bonds under California law. Sacramento is the first California city using this as a means of financing their one-third share of the anticipated loss on their so-called "Capitol Mall" project.

These bonds have several advantages. They are exempt from all taxes. Interest on them and income from them also are tax-exempt. They are not a debt of the city—nor is the city liable for them.

And, most interestingly of all, the California community redevelopment law, in addition to the usual means, provides a unique security for the issuance of redevelopment agency bonds.

In brief, it permits the legislative body (the city council in our case) to pledge all increased property tax revenues which result from carrying out the redevelopment project to pay off the cost of that project, while the city and county continue to receive revenues from the old tax rate. In other words, only the difference between taxes collected now and taxes collected after redevelopment is pledged to pay off bonds.

For example, Sacramento figured it would work this way: Present combined city and county tax revenue from the property in the project area is $125,000. Estimated combined tax revenue after redevelopment is estimated at $375,000. Thus the increase in total property tax revenues through redevelopment is placed at $250,000.

Sacramento is pledging this increase of $250,000 per year for six years to pay off the bonds they believe they will have to sell in order to finance the city's one-third share of the net loss on their redevelopment project.

Another possibility is that of a state loan. This provision of state law was made available just during this last session of the state legislature. We owe a terrific vote of thanks to our local representatives in the state legislature for this means of financing our local share of redevelopment costs.

This legislation provides for 10-year, low-interest loans by the state to communities such as ours for the purpose of financing the local one-third of the deficit (the federal government meets the other two-thirds).

Yet another means of financing any loss—short of cash, that is—is by the city's providing improvements such as streets, etc., which are necessary to serve and support the new uses called for in the redevelopment plan.

Many of these types of improvements could be financed through the regular city budget. It would simply behoove the city to keep an eye on the future and schedule improvements such as street paving and other capital projects in the redevelopment area to coincide with the timing of the redevelopment plan.

In general, these costs could then be deducted from the city's one-third obligation. A word of caution, however—the costs of any such improvement or facility which is of benefit to areas outside the project as well as to the project itself naturally are not 100 per cent creditable.

For example, a small residential street within a project may be 100 per cent creditable, whereas a main thoroughfare or highway bordering the project obviously benefits others (particularly those across the street) outside the project. In cases such as this a percentage of the total cost would be allowed.

This is what the law means when it says these improvements and facilities will be credited against the local one-third share only to the extent that they are of direct benefit to the project area and necessary to serve and support the new uses called for in the redevelopment plan.

You think this is complicated? Just read the legislation . . . honestly, I could be accused of oversimplification. Besides, if it isn't too good an explanation, perhaps you'll go to the trouble of getting in touch with us at the agency. Maybe we're a little better at "talking it" than "writing it."

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