



Community Development Agency of the City of Sebastopol



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Staff Report Reviewed by: Executive Director _____ Agency Attorney _____
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Staff Report: Meeting of January 19, 2010

To: Board of Directors

From: Jack Griffin, Executive Director

Subject: Redevelopment Agency 101

Recommendation: N/A

Funding: N/A

Background: N/A

Discussion: As part of the Agency's Goal and Priority Setting Meeting, the agenda committee felt that it would be helpful to the Agency Board and the public to provide a brief history/primer on what the Community Development Agency is, how it is funded, what it is allowed to spend money on where the approved redevelopment area is within the City.

In 1983, the City undertook the process of establishing a Redevelopment Agency and a Redevelopment Plan for the Sebastopol Community Development Project Area.

Cities create redevelopment agencies, redevelopment plans and project areas in order to retain additional property tax proceeds (commonly called the property tax "increment") and utilize these additional revenues to improve the conditions of the project area. Copies of the ordinances the City has enacted establishing the Agency and approving the Redevelopment Plan are attached.

Tax increment can be explained as follows:

Tax increment is the difference between the base year of the assessed property value at the date of formation of the Redevelopment Agency and the increase in property values in the current year. Tax increment does not change the amount of taxes that the property owner is required to pay. It does change how the extra property tax generated, “the increment,” is distributed. Sebastopol typically receives about 17 cents from every dollar of property tax paid by the property owners of the City. With tax increment, Sebastopol receives about 75 cents from every dollar of new property tax generated above the base assessment. Tax increment is not an assessment or lien on property. Property taxes within the Redevelopment Area are governed by the same laws that limit property tax increases outside of the Area.

For example, typical property tax, assuming no special district assessments, on a parcel with an assessed value of \$500,000 would be \$5,000 (about 1% of the total value). The City’s typical share (about 17 % of the property tax amount) would be about \$850. If the same property sold in later years for \$750,000, the new annual tax would be \$7,500 (about 1%). This would be an “incremental” increase in the tax of \$2,500 and the City would receive about \$1,275. However, if this same property had been in the Redevelopment Project Area when it was established in 1983, the City would instead receive 80 percent of the \$2,500 increase (\$2,000), plus the original \$850, amounting to \$2,850. This is money that would otherwise go to the State of California, the County or other agencies that are the responsibility of the State of California.

One of the popular misconceptions is that somehow the properties in the redevelopment area are somehow taxed differently than properties outside the area. The laws regarding property tax assessment changes do not distinguish between properties inside or out of redevelopment areas.

Its also worth noting that while a City, as defined by the City’s general fund, technically “loses” revenues to the redevelopment agency, the local jurisdiction actually retains far more of the revenue locally by having a redevelopment area than not. This greater retention of funds allow a City, through a redevelopment agency, to make greater direct investments in the community. These investments do make a difference in maintaining and improving property values and to the extent that they assist business in the area, also facilitate increased sales tax revenues, which do accrue to the direct benefit of the City’s finances.

How the tax increment is spent is restricted to the redevelopment area. Under the State’s tax increment rules, the Sebastopol Community Development Agency retains tax increment funds and it must spend according to the adopted Redevelopment Plan. The Redevelopment Plan allows for expenditures for programs ranging from major rehabilitation or construction of water, wastewater, storm drain infrastructure, roadways, other circulation elements, affordable housing opportunities, additional employment opportunities, public/private partnerships to facilitate development of remaining commercial, industrial and residential land, parks, parking, police and fire facilities ant otherwise enhance the physical environment of the Project Area. There is only one absolute requirement with regard to the expenditure of tax increment funds: 20 percent of tax increment revenue must be spent on affordable housing. Tax increment is only generated within the designated Redevelopment Area. This is a distinct

geographic area, and in Sebastopol's case is essentially the City's commercial properties on the Highway 116 and 12 corridors, including Downtown. Although there are some exceptions, tax increment funds are mandated to be spent within the Redevelopment Area.

A copy of the Redevelopment Area map is enclosed.

Staff has been asked what the general process would be to amend the project area. Essentially, it is a fairly simple process, whereby the Agency would work with the Planning Commission. Section 33326 of the California Health and Safety Code states, "Prior to publication of notice of the agency public hearing, the planning commission may change the boundaries of a project area with the approval of the agency." The public hearing would need to identify the areas, the findings that the proposed new area, if the Project Area was proposed to be expanded, meets the various requirements of State law in terms of blighting, improvement of public and private structures, etc.