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Calif. wins OK to abolish redevelopment agencies

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The California Supreme Court dealt a deathblow to the state's 60-year-old redevelopment program, ruling Thursday that lawmakers had the authority to eliminate the economic development program and striking down a law that would have allowed the agencies to exist in smaller form.

The ruling was the worst-case scenario for cities, which argued they needed the program to spur economic development in blighted areas and create jobs - but it was a win for Gov. Jerry Brown.

Brown argued that the state should no longer fund the program because those public dollars could be better spent on education and law enforcement. He praised the high court's decision.

"Today's ruling by the California Supreme Court validates a key component of the state budget and guarantees more than a billion dollars of ongoing funding for schools and public safety," he said.

The ruling will force redevelopment agencies to put the brakes on proposed projects, such as San Francisco's Mid-Market revitalization, and could cast uncertainty on approved projects, including the city's redevelopment of the Hunters Point Shipyard and Mission Bay area. That's because while state law allows redevelopment agencies to finish approved projects and pay off existing debt, the court ruling could spook bond investors needed to fund those projects.

Bad news for oakland

It's also bad news for cities such as Oakland, which rely on redevelopment money to pay for police officers and other city services.

The decision takes effect immediately, though the court gave redevelopment agencies four months to meet some legal deadlines tied to shutting down the program.

Supporters of the program, including San Francisco Mayor Ed Lee, immediately called on lawmakers to find a legislative fix that allows cities to preserve redevelopment, and leaders at the California Redevelopment Association said a bill to revive some form of redevelopment could be introduced as soon as next week.

"It's unlikely that the Legislature intended to dissolve redevelopment agencies without an option to maintain true job creation, infrastructure and affordable housing projects," Lee said in a written statement.

Projects under way ok

Lee noted that while "major projects well under way such as the Mission Bay, Bayview Hunters Point Shipyard and Treasure Island can keep going ... continued future progress on developing affordable housing, revitalizing blighted neighborhoods and generating the resources to fund urban infill development and infrastructure" are at risk.

The ruling comes five months after the statewide Redevelopment Association and League of California Cities sued the state over two bills approved by lawmakers and signed by the governor in June as part of a larger package to solve the state's multibillion-dollar budget deficit.

The 2 state laws

Under AB26 and AB27, the state's 390 redevelopment agencies would cease to exist unless they agreed to pay $1.7 billion this year and $400 million in future years toward schools and other public programs such as special fire districts. Redevelopment programs currently receive about $5.7 billion a year.

On Thursday, the high court unanimously ruled that AB26, which eliminated the agencies, was legal because redevelopment agencies "were created by statute and can therefore be dissolved by statute."

But the court said AB27, which would have forced agencies to pay schools and other public programs in order to stay in business, was not allowable.

Chief Justice Tani Cantil-Sakauye dissented on that ruling while the other six members of the court concluded that the law was unconstitutional because it required redevelopment agencies to give a portion of their funding to other programs. The majority said that requirement violated Proposition 22, a measure approved by voters to protect local funding from state raids.

While supporters of the program intend to work with lawmakers in the new year to write new legislation to reinstate some form of redevelopment, it's not clear whether majority Democrats would embrace such a proposal - or if Brown would sign it.

Brown initially proposed eliminating redevelopment entirely, but Democratic leaders in the Legislature created the smaller, alternative program under AB27 as a compromise to get some of their members on board.

In a statement, Assembly Speaker John Pérez called the court ruling a "mixed result."

Not ready to give up

"Despite the court's action blocking our creation of the smaller (redevelopment agencies) that protected affordable housing funding, we remain committed to finding affordable housing solutions and making smart economic development investments in our local communities," he said.

Jim Kennedy, interim director of the California Redevelopment Association, was optimistic that a bill would be written. He said redevelopment supporters are already talking to lawmakers and that legislation could be introduced as early as next week.

"We think it's abundantly clear that the Legislature did not intend to abolish redevelopment ... and we do still believe there is a willingness on the part of the Legislature ... to work with us and find a viable alternative to keep redevelopment intact," he said.

Redevelopment was created in 1945 as a postwar blight-removal effort paid for primarily by federal grants. Within a few years, it morphed into its current form: a financing structure that allows redevelopment agencies to fund capital improvements by borrowing against future increases in property tax revenues in a redevelopment area.

Critics say the economic development program has moved away from its initial intent and become a slush fund for developers and other private interests.

'Victory' for taxpayers

"For far too long, California taxpayers have financed obscure government agencies that use taxpayer dollars and their power of eminent domain to benefit politically connected developers. During these tough economic times, developers should not be on the public dole while police officers and teachers are getting pink slips," said Marko Mlikotin, president of the California Alliance to Protect Private Property Rights - a coalition that includes family farmers and taxpayer advocates that praised the ruling as "a victory for California taxpayers."

But supporters such as the Non-Profit Housing Association of Northern California say the decision will be "devastating to millions of low-income Californians who have been hardest hit by the largest economic recession the state has seen in years."

"Redevelopment funds are the largest local funding source for affordable homes and rental housing," the association stated. "Over the coming years the loss of this funding will mean thousands more Californians living on the streets and tens of thousands more living in overcrowded and substandard conditions."

Reactions to the redevelopment agency ruling

"Today's decision validated important powers of the Legislature to conduct the people's business."

Senate President Pro Tem Darrell Steinberg, D-Sacramento

"Unfortunately, this decision could eliminate a powerful tool for creating local jobs."

State Board of Equalization member Betty Yee

"Redevelopment is indispensable to cities to spur economic development, create jobs and improve communities."

Chris McKenzie, executive director of the League of California Cities

"This decision comes at the worst time when millions of Californians continue to lose their jobs to a struggling economy and their homes to foreclosure."

Peggy Lee, acting executive director of the Non-Profit Housing Association of Northern California

"I am ready to meet with legislators right away to figure out a way to restore redevelopment."

State Building and Construction Trades Council President Bob Balgenorth

"Today's ruling is a victory for California taxpayers and private property rights."

Marko Mlikotin, president of the California Alliance to Protect Private Property Rights

"Without immediate legislative action to fix this adverse decision, this ruling is a tremendous blow to local job creation and economic advancement."

Julio Fuentes, president of the California Redevelopment Association's board of directors

"We are extremely disappointed with the court's ruling. ...What's at risk for us in San Francisco is our long -term ability to build affordable housing."

Tiffany Bohee, interim head of the San Francisco Redevelopment Agency

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