

CITY OF OAKLAND
AGENDA REPORT

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TO: Office of the City and Agency Administrator
ATTN: Deborah Edgerly
FROM: Community and Economic Development Agency
DATE: December 13, 2005

RE: A Report for Discussion and Direction on the Redevelopment Agency's Policy
for Prioritizing Funding for Infrastructure Improvements

SUMMARY

On June 14, 2005, the Oakland Redevelopment Agency (the Agency) submitted to the Public Works Committee a report and resolutions recommending the appropriation of funds for street improvements to Railroad Avenue. The Committee approved the resolutions, but requested a follow-up report discussing the Agency's criteria for selecting Railroad Avenue rather than another City street for improvements. In asking how the Agency came to prioritize Railroad Avenue, the Committee raised the broader question of how Agency funds are allocated to infrastructure projects.

This report gives an overview of the Agency's current process of assessing needs and providing resources to improve the condition of public infrastructure. A key distinction of the Agency process is that the Agency uses infrastructure investment to alleviate physical and economic blight conditions in furtherance of project area redevelopment plans versus improving conditions to reduce risk, a consideration of the Public Works Agency (PWA). The Agency's prioritization process is grounded in the California Community Redevelopment Law, which defines redevelopment purpose and actions. Redevelopment funding is intended to serve only targeted redevelopment project areas established through adoption of redevelopment plans. The process is further guided by policies recommended by Project Area Committees (PACs), 5-Year Implementation Plans and the Budget Process. Finally, it is governed by the availability of funding and the Agency's assessment of project impacts. In the two year budget cycle FY 2003-05, the Agency provided about 16.6% of its funding to public infrastructure projects.

As part of Agency funding determination, staff first reviews a funding request to establish whether a project is eligible for redevelopment funding. For instance, redevelopment monies cannot be used to pay for the normal maintenance or operations of public property. The Agency often assists with public site improvements, subdivision infrastructure, lighting improvement in commercial corridors, or street improvement/beautification projects to spur development in conjunction with private investment. For these types of projects, the Agency first examines the Capital Improvement Program (CIP) budget, or the Landscape and Lighting Assessment District (LLAD) budget for financial support. If a project does not qualify for CIP or LLAD funding, but it does advance Agency objectives of blight reduction and business attraction/retention, the

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Agency can include it in the annual budget, or for smaller projects consider funding under discretionary portions of the agency budget.

The Railroad Avenue Street Improvement project serves as an example of Agency rationale, and illustrates a joint effort between the Agency and PWA. A description of the project explains Agency goals, such as the reduction of blight, business retention, and mitigation of land-use conflicts, and demonstrates the Agency's use of physical improvements to realize those ends. PWA contributed the design work using Measure B money, while the Agency paid for construction with Agency bond funds.

FISCAL IMPACT

Since this report does not contain an authorization for funding, no fiscal impacts are included.

BACKGROUND

In accordance with the California Community Redevelopment Law (CRL), the City Council established the Redevelopment Agency on October 11, 1956 to assist in eliminating blight from designated areas of the City.

To ensure a consistent characterization of blight, the CRL identifies specific adverse physical and economic conditions which typify blighted areas. They are:

Physical Conditions of Blight

- Unsafe building conditions
- Outdated and inefficient building design, inadequate and obsolete infrastructure, or other negative environmental conditions which require substantial improvements for viable economic use
- Incompatible adjacent or nearby uses which hinder economic activity
- Small and irregularly shaped lots which are under multiple ownership and inadequate for useful development.

Economic Conditions of Blight

- Depreciated or stagnant property values and other evidence of disinvestment
- High business vacancies, low commercial lease rates, and high turnover rates
- Excessive vacant and underutilized land or buildings
- High incidences of criminal activity, sometimes equated with an over-concentration of bars, liquor store or adult stores
- Lack of necessary commercial facilities which are normally found in neighborhoods, such as banks, pharmacies or grocery stores
- Residential overcrowding

Areas determined to be blighted form the basis of project areas in which redevelopment activities take place. The activities include reconstruction and rehabilitation of residential, commercial, industrial and retail districts to reverse deteriorating trends, revitalize the business climate, add to

the housing stock, as well as gain the active participation and investment of residents and local businesses. The Agency is authorized to act only for the benefit of redevelopment project areas. There are currently ten redevelopment project areas in the City:

1. Central District
2. Coliseum
3. Acorn
4. Oak Center
5. Stanford / Adeline
6. Oak Knoll
7. Broadway / MacArthur / San Pablo
8. Oakland Army Base
9. Central City East
10. West Oakland.

The CRL authorizes a redevelopment agency to use redevelopment funds to install or construct public improvements, either within or outside a project area, if the local legislative body (i.e., the City Council) can make the following findings:

1. The improvements will benefit the project area or the immediate neighborhood of the project area;
2. No other reasonable means of financing the improvements are available to the City other than redevelopment agency funding;
3. The use of tax increment funds for the improvements will assist in the elimination of one or more blighting conditions in the project area, or provide affordable housing; and
4. The improvements are consistent with the five-year implementation plan adopted for the project area.

In addition, the redevelopment plan for the project area must authorize the use of project area funds to construct the type of public improvement being proposed.

KEY ISSUES AND IMPACTS

Despite the Agency's broad mandate to eliminate blight, it is constrained in its project choices by considerations of policy, funding, and economic leverage.

Policy Requirements

Each redevelopment project area is governed by its own redevelopment plan, which describes the exact boundaries of the project area, authorizes the Agency to take action, and puts forward a set of goals for redevelopment actions. Plan goals are developed with community input and can vary among communities. For instance, the Coliseum Redevelopment Plan, which covers Railroad Avenue, states the following nine goals:

1. Stimulate industrial, R&D and commercial development by improving obsolete, underutilized and vacant properties
2. Provide long-term job training and employment opportunities for residents
3. Eliminate land use conflicts between the residential and industrial edge
4. Improve public safety for people living and working in the area

5. Improve the quality of the residential environment by assisting new construction, rehabilitation, and conservation of living units in the area
6. Stimulate home ownership opportunities
7. Improve transportation, public facilities and infrastructure in residential, commercial and industrial areas
8. Assist neighborhood commercial revitalization
9. Attract new and retain existing businesses

The West Oakland Project Area on the other hand has a much longer set of 29 goals.

Projects receiving redevelopment funds must be consistent with a project area's redevelopment plan. They must implement one or more of the plan's goals, since these clearly state what are expected from redevelopment actions. Because of the long-term nature of the plans and the need of the Agency to retain flexibility in responding to market and economic conditions, the plans do not establish specific projects. Instead, the principle objectives of the plans are realized through five year implementation plans, which set priorities and direct action. The implementation plans, like the redevelopment plans, are a result of community input.

The CRL prohibits a redevelopment agency from paying for the normal maintenance or operations of buildings, facilities, structures, or other improvements which are publicly owned. Redevelopment funds are normally used for capital expenditures, also known as "bricks and mortar." A redevelopment agency may acquire property, construct, expand, add to, or rehabilitate buildings or facilities. Funds so used aid in stimulating the level of construction and investment in project areas. Inherent in this effort is the need for funds to maintain new projects, which are important to the process of business attraction and retention. The improvement of blighted locations often presumes a commitment to better maintain the area thereafter. PWA is fiscally challenged to pay for the required on-going maintenance of public improvement projects funded by the Agency

Funding Resources and Economic Leverage Criteria

Redevelopment is primarily financed by an approved share of property tax revenue, otherwise known as tax increment revenue. When a redevelopment project area is adopted, the current assessed value of property within the project area is taken as the base value. Any increases in property value, because of a change in ownership or new construction, will increase tax revenue generated by the property. This increase in tax revenue is the property tax increment that goes to the Agency.

Typically, agencies use tax increment funds to leverage financial assistance from various state and federal agencies, and private sources. Tax increment revenue gives redevelopment project areas greater ability to issue bonds, which provide upfront capital to finance large-scale projects. For instance, the Coliseum Area and Central District issued tax allocation bonds to assist in the funding of infrastructure projects. The Coliseum Area issued a \$23 million tax allocation bond in 2003 based on tax increment revenue generated in the project area. The Central District has issued several tax allocation bonds. The last one in 2004 for \$47.7 million will fund capital

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projects such as the Downtown Streetscape Project in the project area through at least FY 2006-07.

Other revenue sources include loans and grants. Projects receiving contributions from other City, state or federal agencies in the form of joint ventures or grant monies enable the Agency to leverage limited funds and achieve plan goals more effectively. Redevelopment staff routinely works with City staff, state and federal agencies to identify and apply for grants.

Economic Leverage

Limited resources require the Agency to be strategic about its projects. Not every improvement that needs to be made can be made. Projects which are isolated in impact are less effective at realizing the goals of the project area than projects which contribute to a larger, more sustained effort. Therefore improvements which support economic development, such as business retention or attraction, leverage new development, or increase private investment are more attractive than improvements without similar linkages. In the same way, improvements which support adjacent uses that might generate additional tax increment are more attractive than improvements that do not.

Projects that received funding which have significant impact and leverage private investment include:

- Coliseum Area streetscape projects
- Central District streetscape and parking structure projects
- West Oakland capital projects
- East Oakland streetscape and retail support activities

POLICY PROCESS

Railroad Avenue, the project which engendered this report, is located in the Coliseum Project Area. It was undertaken to address several conditions which are hampering economic development and impairing the welfare of local residents. In alleviating the conditions, the Agency implements four of the project area's plan goals:

- Improve transportation and infrastructure in an industrial area
- Stimulate development
- Retain local businesses
- Help mitigate land-use conflicts

Two studies preceding the Coliseum Redevelopment Plan had identified the need for these upgrades. Brady and Associates' 1993 Coliseum Land Use Suitability Study considered Railroad Avenue a key redevelopment location. It abuts the IMO Delaval site, the largest parcel of industrial land that remains in the Coliseum Area. According to the study, it is a prime opportunity site for employment in the Elmhurst area. However, land-use conflicts between the industrial and residential uses along Railroad Avenue present potential impediments to economic development.

In its 1994 Blight Analysis Study, Keyser Marston Associates noted other blighting conditions on Railroad Avenue:

Physical Blight

- Building obsolescence
- Land-use conflicts
- Inadequate public improvements

Economic Blight

- Stagnant property values
- High crime rate

The analyses indicated the appropriateness of the project. By removing the blighting conditions on Railroad Avenue, the Agency not only improves the environment for residents and businesses, but also brings the street into the project area's network of development to help support future investment.

As this project demonstrates, a multiplicity of factors enters into the evaluation of an infrastructure funding request. Economic leverage and linkage to other redevelopment efforts are critical. For each budget period, the larger, key improvements are proposed based on anticipated redevelopment activity, projects, and needs. These infrastructure improvements are acted on by the City Council during budget adoption. Smaller requests are evaluated on a first come, first reviewed basis utilizing the factors set forth in this report. Since these requests are sequential, they are not evaluated against one another.

SUSTAINABLE OPPORTUNITIES

Economic: Agency infrastructure projects contribute to the general economic revitalization of an area by eliminating blighting influences which act as barriers to investment. The agency investment is often leveraged with other funding, such as CIP funds, to support economic growth.

Environment: The Agency investment in streets, utilities and public infrastructure supports reuse of land and more efficient use of resources by encouraging people to live and work more compactly. The investment contributes to "smart growth" employed at BART Transit Villages.

Social Equity: Disadvantaged residents often live in the redevelopment areas where the Agency undertakes infrastructure projects. To balance the scale, the project area improvements include benefits which address under-improved conditions and involve small disadvantaged and local firms in the delivery of service.

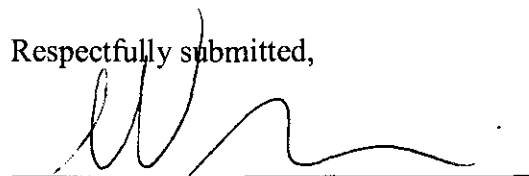
DISABILITY AND SENIOR CITIZEN ACCESS

The Railroad Avenue and streetscape projects often include the installation of sidewalks which assist senior citizens with improved access in the redevelopment project areas.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests Council to discuss the report and provide direction on the Agency's prioritization policy.

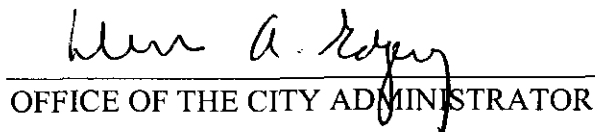
Respectfully submitted,



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APPROVED AND FORWARDED TO THE
PUBLIC WORKS COMMITTEE



OFFICE OF THE CITY ADMINISTRATOR