



# Land Games – Economic Development

## INSTRUCTIONS

### Goals

- To understand the process and the players in land development
- To show the role, motivations, and tools of the Redevelopment Agency in the land development process
- To evaluate winners and losers in land development decisions
- To think about how people can organize to influence development in their neighborhoods

### Background

This training is a two-part “Live illustration” — a story told by the trainer with the audience participating as players. It shows how different players in land development decisions are motivated by specific interests and what the consequences of those decisions are. The illustration also tries to show where people can organize to influence specific land development decisions and their community’s economic development as a whole. It is important to note that this training was developed to describe the process in the San Francisco/Bay Area; other areas may differ.

### Set Up

You can arrange the room with all chairs in a circle or with a front to the room. If you are using a traditional front, have chairs positioned for the roles since the players will be at the front through the entire training. Have your props ready to distribute as you choose people and introduce the players.

### Time Required

1 hour and 15 minutes

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### **Materials Needed for Introduction**

- Property owner – placard, deed, blank card for empty lot
- Developer – placard, cell phone, & rolled up developer’s chart (see in Chart section)
- Tenant – placard & lease
- Investor – placard, tie, & money
- Mayor – placard, sash & top hat
- City Planning Commissioner – placard & General Plan book

### **Materials Needed for Part One: Granting a Variance**

- Easels
- Butcher Paper
- 6 Smile/Frown faces
- Conditional Use Permit
- Consolidated owner (same person as Tenant) – visor, lease
- Consolidated worker with visor
- Judge’s wig for Planning Commissioner
- Land Use Options List (see Charts)
- Developer’s Chart (see Charts)
- Planning Commission’s Checklist (see Charts)

### **Board pieces**

- Felt board
- Warehouse
- Freeway
- Truck
- Factories
- Consolidated Printing Factory
- Manufacturing Zone sign
- Factory workforce
- Live/work Loft sign
- High Tech workers

### **Materials Needed for Part Two: Redevelopment Agency**

- Redevelopment Agency (RDA) – construction hat
- “Blightbuster” sign for RDA construction hat
- Two \$100 property tax cards
- Tax increment card
- \$9,900 Property Tax card
- Bond card

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- Interest card
  - Tax break card
  - Clones-R-Us hat
  - Subsidies Goodie Bag with tax break, free land, fee exemption, cash grant cards, zoning exemption, public parking and one-stop shop cards
  - Special Powers Magic Wands – eminent domain, bonds, subsidies, tax increment financing, etc. clean up other wands in this list
  - Land Development Values Chart (see Charts)
  - Special Powers Chart (see Charts)

#### Board pieces

- Felt board
- Apartments
- Small house
- Empty lot
- Warehouse
- Corner liquor store
- Families
- “Blight” line (made of long, thin strip of felt or cardboard)  
Clones-R-Us office building
- Gift bow over office building (as if a ribbon for ribbon-cutting ceremony)
- Starbucks
- Gourmet deli
- High tech workers

#### CHARTS

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| <ul style="list-style-type: none"><li>• Retail</li><li>• Affordable multi-family housing</li><li>• Deluxe live-work condos</li><li>• Manufacturing</li></ul> |
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#### Land Use Options Chart

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Kind of development	How much profit it makes <sup>1</sup>
Manufacturing	Low profit
Retail	High profit
Multi-family housing	Low profit
Single Family Housing	Medium to High profit
Office	High profit

### Developer's Chart

<u>Checklist</u>
<ul style="list-style-type: none"> <li>• Will it cause too much traffic?</li> <li>• Will it put too big a burden on water or sewer services?</li> <li>• Is it appropriate for the zoning uses?</li> <li>• Does it fit with the character of the neighborhood?</li> <li>• What are the environmental impacts?</li> </ul>

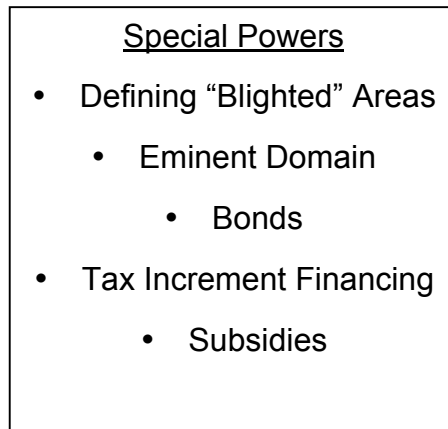
### Planning Commission's Checklist

<u>Land Development Values</u>
<ul style="list-style-type: none"> <li>• Who is land development for?</li> <li>• What's the goal of land development?</li> <li>• Should land be used as a way to make money?</li> </ul>

### Land Development values

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1. This is based on "return per square foot" estimates.



Special Powers Chart

### **Important Notes to Trainer:**

All statistics and other facts need to be updated prior to use.

What follows is a "script" or an example of what the trainer would say during the training. It is written in a casual tone and is peppered with instructions for the trainer to perform certain actions at certain times. By providing this material in "script" form, we hope to communicate the sense of structure that is imbedded in the training, in addition to conveying the educational content. It is important to realize that much of the information and sequence of actions need to be mastered by the trainer prior to the training rather than simply read out loud, because otherwise the trainer will lose track when the audience interrupts with questions and comments. To help you keep track of what to do when, and what information is important to emphasize at what time, we provide the following visual cues:

- *Italics* indicate instructions or information for the trainer only. Items in both italics and blue indicate an action for the trainer to do.
- Underline indicates a question from the trainer to the participants.
- **Bold** indicates new terms being defined or a point to emphasize.

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## LAND GAMES INTRODUCTION

Today we are going to look at how land in your neighborhoods gets used. In other words, how property gets developed—How is it that an old warehouse in your neighborhood gets turned into live-work condos. Or an office building goes up in your neighborhood when really, you need a grocery store. Or in your neighborhood that empty lot just sits there –with nothing happening to it for years and years.

Specifically, we are going to look at the players in the process that determines what happens to the old warehouse or that empty lot. If you don't want live-work condos in your neighborhood or if you want to make sure that empty lot in your neighborhood becomes an apartment building with affordable rents, who are the players you have to deal with? What's the game you have to play?

For the next hour we'll introduce some of the main players in land games and get to see how they act.

### Players and their Motivations

There are hundreds of different players that ultimately have a say in what happens to the properties in your neighborhood. Today we are going to focus on 6 main players. I'll introduce each player and then let's take a look at what motivates them...what makes them want to put a Starbucks or live-work lofts or a warehouse or whatever on that piece of land in your neighborhood. What makes them say, "Yea! Success!"

*Introduce Property Owner.*

*Get someone from the audience and give them placard and deed. Give owner blank card for empty lot.* You are a property owner, and you own this empty lot. Of course, there are lots of different kinds of property owners. Could be your grandma who has owned her 2-bedroom house for 50 years. Could be a real estate company who owns properties all over the city –offices, apartment complexes, a parking lot, or even a bunch of weed filled empty lots—some of which sit down the street from you.

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For today, let's say you are a real estate company who owns a bunch of properties across the city. No matter what we do with this property—what's your bottom line for what happens with it? What's your definition of success for this property? Money. You want to make a profit.

*Introduce Developer.*

*Get someone and give cell phone and rolled up chart.* This is the person or company that develops a plan for how this property can be used, how much money it will take to develop it, and how much money it'll make. This is the person who gets the money and the approvals needed to make the plan happen. This person is called a developer. You are a developer.

*Give them placard.* What do you want out of this property? What's your main motivation as a developer for this? Money, P-R-O-F-I-T.

*Introduce Investors.*

*Get someone and give them placard, tie and money.* You are an investor. Who are investors? Rich individuals, for sure. But also, there are big investment institutions: for example, YOU are the head of a big pension fund. Other people have given you their money for their future retirement and you need to invest that money. How do you spell success for what gets built on this lot? P-R-O-F-I-T—You need to invest your money in a project that will make a profit.

*Introduce Tenants.*

*Get someone and give her a "Consolidated Printing" placard and lease.* The developer and the property owner generally aren't the ones who will be using the space. Tenants use the space. A tenant could be you or your friends who rent a two-bedroom apartment. Or somebody who rents a storefront for their business. Or a tenant could be a big business like GAP retail store or a computer making factory. Let's say you are a printing business, "Consolidated Printing" who rents factory space right next to this empty lot. What's your motivation for what gets built on this lot? You want a good neighbor. Something that works for your business—something that doesn't raise the rent or cause you problems, like traffic congestion.

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*Introduce City Elected Officials.*

*Get someone and give her placard, mayor hat and sash.*

City Officials who are elected –the mayors, city council members- are also important players. Let’s bring up the mayor.

Of course, politicians have different interests and motivations, but in general –you all want to see the lot developed in a way that is ‘good’ for the city (eh-hmmm, good for YOU), right? Now what makes something “good” for the city (eh-hm, good for you?)? How do you spell success for this empty lot in your city? *Let them answer what they can, fill in the rest.*

- Do you want to get re-elected? What would help you do that?
  - a. Something big and fancy – yeah, you want to be remembered as the mayor that finally built a nice hotel on that empty lot. You want photo-ops. You want good publicity.
  - b. Who helped you get elected in the first place? Developers, businesses, community residents, labor. Folks who gave campaign contributions? Folks who door knocked for you and made phone calls for you? You might want to be nice to them so you can count on their support next time.
- Do you stay awake at night worrying how to get enough money to pay for all the things you have in the city budget? Remember how federal funds to cities were slashed by 2/3<sup>rds</sup> in the 1980s? You need more tax revenues. So what does that mean for what you’d like to see developed on this empty city lot? Something that will get you more sales and property taxes.

In fact, seven out of ten city managers say that sales tax is their top consideration when planning for development on vacant land. In comparison, meeting their affordable housing needs ranked sixteenth out of twenty considerations. When getting more tax revenues are the top consideration for what kind of development you want, that’s called **fiscalization of land use**. You’re more concerned about the fiscal benefits that the land could give you, than other concerns like what kind of housing you need.

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*Introduce City Planning Commission.*

One last player for now. The mayor and city council appoints a number of citizens to form the City Planning Commission.

*Get someone and give her a placard.* The Planning Commission may have business people on it; it may have community leaders on it. The commission has several jobs, but we are going to talk about just one now. State law requires the Commission to make a plan for what the city should look like 10 or 30 years down the road. What kind of housing it should have, what kind of businesses AND where everything should be located throughout the city. This plan is called the **General Plan** and usually the Commission writes a new plan every 5 years. *Give them the General Plan book.*

What motivates your decisions about how this city block is developed? How do you spell success? Development that fits with the plan. Also, you were appointed. *Nod to the mayor.*

Look who's up here now. We've said these folks are the major players in deciding how land in your city—in your neighborhoods—gets developed. Quick review: in one word (or a few)—What's your main motivation? *Point to each player.* Of course there are many other players—including the people in your neighborhood. We will get to talk about the community as a player.

Now that we have the players and their motivations, let's look at what happens when you throw this empty lot on the table.

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## PART ONE – GRANTING A VARIANCE

*Set up the green board. Put on the wall of one side of the room a happy face and put a frown face on the other side of the room.*

This lot sits in a neighborhood called West Kelly. Actually, it's not empty. It has a run-down abandoned warehouse on it. *Stick warehouse on board.*

Here's the owner of this lot. Do you have the deed to this property? *Have property owner wave their deed.*

West Kelly is an industrial area with lots of factories. It has a lot of noise, smoke, railroad tracks and it's right beside the freeway. There are trucks going in and out all day and night doing deliveries and pick-ups. *Put up freeway, truck, and factory on the board.*

*Stick Consolidated Printing next to empty lot on the board.* For example, next to your lot is Consolidated Printing. Consolidated Printing has rented this space for 25 years. You still have your lease, right? *Consolidated waves lease.*

Some folks may just see dirty smokestacks here, but other folks see good JOBS. CP provides 120 blue-collar union jobs.

*Stick workers on factory.* Here's John, one of CP's workers. *Get someone to be Consolidated Printing worker and give them printer's visor. What does a union job like John's offer?* Union jobs are important in today's economy—particularly for workers who haven't gone to college. John has been working for the past 20 years at CP and thanks to his stable, good-paying job, he was able to buy a home in Kelly years ago when blue-collar workers could afford to buy houses. John is African American, as are most of his co-workers. Good paying, stable jobs for African American men who haven't been able to go to college are hard to come by, so Consolidate Printing is an important employer in John's community.

### **General Plan**

All of West Kelly is designated solely for manufacturing purposes. *Put up manufacturing zone sign.*

The Manufacturing Zone is in the **General Plan** that the Planning Commissioners put together. But, it's not just the Commissioners who decide how West Kelly should look in

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20 years. It's everybody who participates in putting the plan together. It is required by law that there be citizen participation in putting together the General Plan. So neighborhood associations, and developers, and all the city agencies like the Parks Commission have input into what the General Plan says.

In the early 1990s, a coalition of community members and manufacturing businesses from West Kelly worked very hard to make sure that the General Plan would keep West Kelly as a manufacturing zone. They knew that good paying jobs like John's are disappearing in our "new economy." To keep Kelly as a city in which people that haven't gone to college can still afford to live, they needed to keep good paying manufacturing jobs. They also knew that manufacturing jobs have a greater ability to generate additional jobs.

The coalition won their campaign to make the General Plan keep West Kelly as a place only for manufacturing. So, based on that plan, the Planning Commission developed a set of rules about what property owners can and can't build in this area. You might have heard these rules called the **zoning code**.

### **Land use decisions driven by profit**

Now that we have some background on this property, let's see how it gets developed. What do each of the players want to see built on this lot? What do you want to do with this abandoned warehouse? I'm going to give you some options. [\*Put up Land Use Options list.\*](#)

- Retail
- Affordable multi-family housing
- Deluxe live-work condos
- Manufacturing

Players, you'll have to move around –based on your motivations—if you like an option I give you, run to this side of the room where I've placed a "happy face." If you really DON'T like the option, run to this side, where there is a 'frown'. If you are conflicted, you can stand somewhere in

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the middle, closer to the side that you feel best about. Let's try it:

*Trainer's note: This section underscores the players' motivations. Ask a specific player why she chose a particular side only if you want to make a point or if they are on the "wrong" side.*

## Retail

What about putting a retail mall here, with a few fancy little stores and one big tenant—like a Barnes and Noble bookstore? Remember, based on your motivations, those of you who like the idea, head for the smile. Those who don't, head for the frown.

*Say to Developer*—[happy face] What's your main motivation? Profit. Do you like the idea of building a retail mall? Yes! *Have the developer unroll the chart.* Here's a chart that shows you what you can generally expect to get back from your investment in a lot like this.

Kind of development	How much profit it makes <sup>2</sup>
Manufacturing	Low profit
Retail	High profit
Multi family housing	Low profit
Single Family Housing	Medium to High profit
Office	High profit

Planning Commission—[sad face] Doesn't fit with the General Plan!

Mayor—[happy face] Heck yeah! Get sales tax. Good for my city's revenue. Remember, retail was top on your list for development options.

Kelly residents — *Ask the rest of the audience.* One more player here: residents of Kelly—where do YOU stand? Could be happy or sad face, depending on whom you are talking to. Who's going to shop there? What kind of jobs will be there? Will the jobs at a retail mall have wages like John's? Will they provide benefits? Not generally. "Service jobs" are not usually union or stable, good jobs.

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2. This is based on "return per square foot" estimates.

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## Multi-family Housing

What about developing a 15-unit apartment complex for low-income families?

Mayor—[happy face or in middle] Are you interested? Yes. We need more affordable housing in this city. In fact, in California, local governments are required BY LAW to dedicate a certain amount of their general plan to affordable housing. It's called the **Fair Share Housing Law**, and if a local government doesn't follow this law, the penalty is losing state money for transportation.

What will this do for your revenue? Not much. What will this do for your budget? With more families living here I need a bigger budget for fire, police, and other city services.

Planning Commission—[sad face] Housing doesn't fit the General Plan for this area. Why would you want to build housing next to factories? Horrible idea.

Community? You want more affordable housing...but do you want it here? And you are still worried about losing good jobs. Housing doesn't create any long-term jobs.

Developer/property owner/investor—[sad faces] Are you interested? No profit in affordable housing! No thanks!<sup>3</sup>

Of course, it's more complex than this. But in general, it's important to note that the motivations that certain players have will make a development happen or kill it before it gets off the drawing board. In the case of a housing development for low-income families, it doesn't matter if everybody wanted to make it happen, if you can't find investors who will put up the money or loan you the money.

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3. Remember that there are significant differences between what works best for the developers, the investors, and the property owners. For example, the property owner wants to sell the property for a lot of money, but doesn't care what gets built. Investors might want to invest in affordable housing, if they can get low-income tax credits to offset profits they are making elsewhere. The developer might be the one who doesn't turn a high profit when building affordable housing—but often the developer is also an investor.

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## Deluxe live/work condos

What about an 8-unit live/work complex for high tech workers and artists? It'll only take a second to get onto the highway going to Silicon Valley.

Developer & Property Owner & Investor—[happy faces] Thumbs up! You can get cheap property and turn it into expensive housing.

Mayor—[happy face] You need housing in Kelly. How would it impact your revenue? The city would receive higher property taxes, so it would get more money. How would it impact your budget? With live/work space, there won't be families, so there'll be fewer people needing services and utilities, and the school district won't have to worry about paying for more kids in the school system.

Consolidated—[sad face] Definitely don't want it. The residents would complain about the noise of our business.

## Manufacturing

Planning Commissioner, according to the general plan, what is the city's vision for this lot? What is this lot zoned for? Manufacturing!

Developer, are you interested in developing a manufacturing site? Check your analysis chart. No way. As it stands, you couldn't make the most profit off of building a factory here.

So what happened with this lot? Let's bring up the owner and developer to open the envelope.... drum roll... It's going to be a Live/Work condo development!

### **Zoning code exceptions are an opportunity for organizing**

But wait! Planning Commissioner, for what does your General Plan say this land can be used? We just said that this lot is zoned for manufacturing use only. Can the developer just start building condos? No.

Any development plan that doesn't fit with the general plan—like this plan to build condos on a lot zoned for

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manufacturing only-- MUST go through a public process to approve or reject such an exception to the rules. You may have heard words like **plan amendment, zoning variance, or conditional use permit** to describe this kind of exception.<sup>4</sup>

## Conditional Use Permits

I want to spend a minute talking about Variances and Conditional Use Permits. The Planning Commission is the player that can give a CUP to a developer. *Give CUP to Planning Commission.*

But you don't sit in a room by yourself when deciding whether or not to give a CUP. There are Public Hearings in which anyone can come testify as to why giving that CUP to a developer is a good or bad idea.

Conditional Use Permits can be really useful for community organizations. Not only is it an opportunity for the community to pressure the Planning Commission to approve or reject a development project, CUPs are also a tool for the city to say to the developer "We'll grant you an exception to the rules AS LONG AS YOU...provide off street parking" or "AS LONG AS YOU...put \$10,000 into an affordable housing fund." So community groups can push for strings to be attached to any development project that needs a CUP.

There are other ways that CUPs can potentially be used. For example, activists in LA pushed through a law that requires any business that wants a liquor license to FIRST win a conditional use permit. So because a CUP requires a public process, now community members have a chance to say NO to more liquor stores in their neighborhood.

So Developer, if you want to build live/work condos on this lot, you have to ask the Planning Commission for an exception to the rules—for that CUP. *Move developer over to Planning Commission.*

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<sup>4</sup> Variance in SF; CUP in Oakland. Variances are usually passed by a planning commission through a resolution and can be appealed to the city council. CUP allows a local government to either place specific conditions on a development proposal or deny it outright. Both Variances and CUPS require the development of "findings" to justify their approval.

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Now the Planning Commission has a public hearing about this request and acts like a Judge who considers the facts before deciding. [Planning Commissioner, here's your judge's wig and a chair.](#)

**Now let's hear testimony from a few of our players:**

**Consolidated Printing:** Earlier you that you didn't want live/work condos beside you. Get your advisors together (I'll pitch in)—and tell the Planning Commissioner why live/work condos on this lot could possibly hurt your business.

1. There is a possibility that the business will expand and so it may need that lot next door.
2. People living next door to a factory with trucks going in and out all day might complain, making it harder for existing businesses to work.
3. Consolidated Printing doesn't own the property; it is the tenant. If this live/work condo makes property values rise in the neighborhood, Consolidated's landlord may consider raising the rent, or kicking out Consolidated Printing to build another live/work condo project.

**John and his Printers' Union:** Why would you and your union care? If Consolidated Printed is threatened, that means that the workforce is threatened with losing their union jobs. We'd rather see additional manufacturing jobs (held by union workers) that would be created if another factory moved in.

**Kelly residents:** You pushed through the original plan to make this neighborhood designated only for manufacturing. Why do you care about keeping this lot for manufacturing?

1. You want to have manufacturing jobs in this town. You want a way to ensure good, stable jobs for residents who live here and who may not have a college degree.
2. The city could lose a well-planned manufacturing district if it becomes chopped up into pieces—lot by lot. It's almost impossible to tear down live/work condos to put in a factory. Land for manufacturing that is lost is lost forever.

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Thank you for your testimony. You may be seated. These are all really compelling reasons why not to grant the CUP for live-work development.

Here's the catch: the Planning Commission, by law, uses a standard checklist of things to consider in making its decision. The basic question is will it hurt the neighborhood or not? Here's some of the things the checklist includes:

*Pull out Planning Commission's Checklist.*

Checklist

- Will it cause too much traffic?
- Will it put too big a burden on water or sewer services?
- Is it appropriate for the zoning uses?
- Does it fit with the character of the neighborhood?
- What are the environmental impacts?

Note: Right now the checklists that Planning Commissions have to use do not include considerations that you all had about what kinds of jobs would be lost or created.

So this proposed live/work condo project meets the conditions of the Planning Commission's checklist. So Planning Commission will give the CUP to the developer. Congratulations.

But WAIT! If you all don't like the decision you can appeal it to your City Council. The City Council can veto or uphold this kind of big decision.

This is where the decision turns political. There are no checklists there. The decision is based on who has the most power to get the Council to vote in their favor.

Who has political power in this case?

1. Does a developer have power? Yes he does, through campaign contributions, and connections.
2. Do John and his union have power? How? Unions can call for accountability from officials they have helped to elect. Unions help through donating money

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to campaigns, running phone banks, doing door knocking, mailings, and get out the vote drives.

3. Do the West Kelly manufacturers like Consolidated Printing have power? How?
4. Does the coalition that pushed the city to adopt a General Plan that designated this area as manufacturing only have power? Depends on who is part of the coalition.

This scenario is based on a real story of what happened in Berkeley. When the coalition of people and groups (from churches to the manufacturers association in West Berkeley) won the campaign to make the General Plan designate West Berkeley as a manufacturing zone, it was really powerful and alive. But this coalition, while once powerful, wasn't organized when this request for a CUP came to the table.

In this story, City Council approved the CUP to turn the warehouse on this lot into live/work condos. There wasn't a strong enough community and labor voice to stop the project. So the live/work condos got built. *Put on live/work condos on the board.*

Who are the winners and losers in this story?

*Instruct them to stand on one side of the room if they won, the other if they lost, and those who are not sure to stand in the middle.*

Who won? Investor, Developer, Owner. The city gave the property owner and developer a conditional use permit, giving them the right to build something very profitable on this property.

Who lost in this story? Consolidated Printing & John. Your landlord—the owner of the building you operate from—thinks live/work condos might be a good idea and hikes your rent to the point where you have to move out to Livermore. What does that mean for John and the other workers? John and his co-workers will lose their jobs. *Pull off workforce and pitch it.*

Mayor and City Council – What did you win?

1. You got more housing in the city—but FOR WHOM? Who can afford to move into these loft condos? What do those people look like? Highly educated workforce, young, male, mainly white. Remember, you have to

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meet your Fair Share Housing requirements. *Put the high tech workers on the board.*

2. You got increased revenue through increased property taxes.
3. You get to feel like you are part of the new economy.
4. More people with disposable income are living and spending in your city.
5. You made your paybacks for campaign contributions.

Kelly residents? Whether you won or lost depends on:

1. If you own land or a house nearby, your property value just jumped. So you might be able to make a little bit of money by selling your land or property. You win a little.
2. If you are a tenant nearby, either a manufacturing business or a resident, your rents may increase. You lose.
3. What kind of jobs do you want in your city? Are you going to be a community where only people with college degrees can live and work? What will your community look like?

## CONCLUSION

It's important to remember that policies and processes like the General Plan and CUPs are not just for some players to use. These tools are not just the tools of the land developers and property owners. They are tools that we can use too. When community groups know how to use these tools and when they build the power to use them successfully, community groups can get the kind of development they want on the land in their neighborhoods.

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## PART TWO: THE REDEVELOPMENT AGENCY

*Keep all the players and props from Part One up at the front. Some of them will be utilized in this section as well.*

Now we're going to look at another player: the **REDEVELOPMENT AGENCY**.

WHO is the redevelopment agency? It's a city or sometimes a county agency, with its own staff and its own governing Board of Directors. The mayor and City Council appoint people to the Board. So these people are not directly elected.

*Pick someone to be head of redevelopment agency and give them construction hat.* You are the head of the redevelopment agency. **What does the redevelopment agency do?** Redevelopment agencies were created to help cities fix run down neighborhoods. What's the best way to redevelop a neighborhood? Again, it depends on how you answer some basic questions: *Refer to Land Development Values Chart.* Who is land development for? What's the goal of land development? And should land be used as a way to make money?

### Land Development Values

- Who is land development for?
- What's the goal of land development?
- Should land be used as a way to make money?

How does the redevelopment agency do its job? Let's look at the tools a redevelopment agency has to carry out its work.

### DEFINING "BLIGHTED" AREAS

The first thing you get to do is figure out what parts of town are run down, that have "**blight**." What do you think blight is? *Give them a few moments to answer.* Yeah all of those things – vacant lots, abandoned buildings, not a lot of businesses, unsafe buildings.

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*Say to head of Redevelopment Agency, or RDA:* So now YOUR mission, should you choose to accept, is to FIGHT THAT BLIGHT. *Give RDA the “BLIGHT BUSTER” sign to put on the hat.*

To do this job, you have some SPECIAL POWERS. *Take out the Special Powers Chart.*

<u>Special Powers</u>
<ul style="list-style-type: none"><li>• Defining “Blighted” Areas</li><li>• Eminent Domain</li><li>• Bonds</li><li>• Tax Increment Financing (TIF)</li><li>• Subsidies</li></ul>

You can have a Magic Wand for each of your powers!

*Point to felt board.* Anyway, here’s your town and here’s a part of town that has some older houses and buildings, a few empty lots, corner liquor stores, no grocery store. The residents are mostly low-income families. *Put apartments, small house, empty lot, warehouse, liquor store, and families on the board.*

It looks pretty blighted. So you go to City Council and say – hey, let’s make this a redevelopment area. You hold a public hearing about it but not a lot of people come. If there are a lot of low/moderate-income residents in this area you’re required to create a Project Area Committee – but you don’t HAVE to accept their recommendation. So hey- you got yourself a redevelopment area. *Have RDA use Blight Wand and put up the “BLIGHT” line on the felt board.*

#### Eminent Domain

*Give RDA an Eminent Domain Wand.* Some of you may have heard this term before. It’s the power of the government to ACQUIRE land with or without the property owner’s consent for the public good. Urban renewal during the 60s and 70s used this power a lot. It’s very controversial. A lot of communities and individual property owners have fought this. So many agencies are reluctant to use it. But you still have the power, if you need it.

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## Bonds

Okay, to fight that blight, you need to BUILD things – good housing, business space, etc. And to do that you need MONEY. *Give RDA a Bond Wand.*

What are bonds? Bonds are a way to borrow money. They are another word for IOU notes. Let's see how they work.

*Give bond card to RDA.* You have these bonds. Investors want to buy bonds. *Use Investor from Section One, and have Investor and RDA exchange bonds for money.* Pretty easy. What does an investor get in return for buying bonds? First, the borrower pays interest, basically a fee for borrowing the money. *Have RDA give Interest Card to investor.*

Second, one of the special things about these bonds is that they're often tax-free. That means that the investor doesn't have to pay taxes on the money they're making from interest. *Give the investor a Tax Break card.* So Uncle Sam gets less money, the investor gets more. That's a pretty good deal you got there!

By the way, who are investors? People with money. The top 10% wealthiest people in the United States own over 90% of all the bonds (state, corporate, other) in the U.S. Do the top 10% look like the folks in your neighborhood? Not really.

Now in California, you often see bond initiatives on the ballot. Voters get to decide if we think the city or state should go into debt to pay for school repairs, transportation, prisons, and parks. *Say to RDA:* But guess what: YOU don't have to go through all that. Another special power of these bonds is that you don't have to get voter approval to issue them. Wave that wand!

These bonds add up to a lot of money. Redevelopment agencies have issued so much in bonds that in California they owe more than \$41 billion in debt.<sup>i</sup>

## Tax Increment Financing

How are you going to pay back these bonds? Well, some of it will be through selling or leasing land, and some other sources. But one big way is something called Tax Increment Financing, also known as TIF. That's your third SPECIAL POWER. *Give RDA a TIF wand.* Let's see how it works.

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Say you, the property owner, has this empty lot in your redevelopment area. There's nothing on it and the neighborhood is pretty run down so it's not very valuable. So property taxes on this lot aren't a lot either—just \$100. So each year you owe the city \$100 in property taxes. *Give Property owner a \$100 Property Tax Card, and have them pay it to the mayor.*

So say you build a nice new 5-story office building on the lot. Is the lot worth what it was before? No way! Now say you sell the lot to me for a LOT of money. *Take the property from Property Owner.* Now property taxes on this property are \$10,000! So I should give the \$10,000 to the city, right?

NO! And that's the special power. When the area was approved, property taxes got FROZEN. From now on, whoever owns this property owes THE CITY \$100 a year in property taxes, no matter what.<sup>5</sup> *You give \$100 Property Tax Card to the mayor.* The rest of it - \$9,900 goes to the redevelopment agency. *Give \$9,900 Property Tax Card to RDA.* Did you get that? Whoever owns this property will always only give the city \$100. However much the property tax goes up with the increased value of the property, all of the rest of it will go to the redevelopment agency.

THAT is called the "tax increment" – the amount OVER the original property tax – in this case, \$9,900. Remember, it's not just the increment from this one lot—you get to keep the tax increments from all the other properties in the redevelopment area.

Right now 8% of all property taxes statewide, \$1.5 billion in 1997, go to redevelopment activities.<sup>ii</sup> At current trends, 64% of property taxes by 2040 will go to redevelopment!<sup>iii</sup>

By the way, what do our property taxes usually pay for? They pay for schools, police, fire fighters, librarians, etc. (1999-2000 – schools 52%, counties 18%, cities 11%, special districts and other 19%. Total of \$22.7 billion).

What does this all mean? In order to get money, the redevelopment agency has to sell bonds. To pay back the bonds it has to get tax increments. To get tax increments it has to increase property taxes. And how do you increase property taxes? By RAISING PROPERTY VALUES. So the

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<sup>5</sup> Actually there is a 2% annual increase in the frozen base.

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agency needs to redevelop “blighted” neighborhoods in a way that will raise property values – a lot. In other words, **raising property values is going to be an important motivation for any redevelopment project.**

Let’s look at one scenario. Let’s say you buy this empty lot in the redevelopment area. What do you want to build? What kinds of development would raise property values the most?

*Create the Raise Property Values Chart by writing down audience’s suggestions on butcher paper and consult the RDA for whether it would be good for property values, indicating the answers with happy/sad/neutral faces. The chart should look something like this:*

Kind of Development	Good for Property Values?
Hotel	☺
Big Box retail	☺
Office building	☺
High end housing	☺
Small business	☹
Multi-family affordable housing	☹

Hotel – Good for property values. Make it ritzy, more attractive for bringing in conferences. *Ask the mayor what she thinks of it.* The City likes it too because it brings in money through increased tourist taxes and increased spending in the city.

Big box retail – How about Home Depot? Good for property values. Well known big company. *Ask the mayor what she thinks of it.* The City likes it A LOT because it will bring in sales tax revenue.

Office building – Good for property values. It would bring in 200 professional workers and create businesses catering to them: a place to eat lunch, copy store, etc., as well as bring in other businesses.

Expensive housing – How about 15 townhouses on the block? The more expensive the townhouse, the more property tax you can collect.

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Multi-family affordable housing – How about a 20-unit apartment complex for families that don't make enough money to pay full market rent? We need decent affordable housing in this neighborhood. Here are a couple of things you should know, RDA:

- State law requires redevelopment agencies to **dedicate 20% of the money** you make from tax increment financing to go into a “low and moderate-income housing fund.” So the agency actually has a pot of money that it can use to develop housing.
- Also **30% of any housing you develop has to be affordable** to low-income people
- But will this raise property values? Not so great.

*Ask the mayor* – What do you think? It's not so great, we have to pay for more infrastructure – schools, police, maintenance – but we don't get the property taxes to pay for it.

But maybe someone else has an opinion too...

*Bring up someone and give her Clones-R-Us hat.* You're head of Clones-R-Us, a growing biotech company. You need new headquarters – and you're eyeing that lot. But you're also eyeing a nice lot in Emeryville – and they're promising a nice discount on the land, help with construction costs, and tax breaks.

*Ask RDA:* Hey – do you want this company? I hear the city is trying to cultivate the biotech industry. Yes, you want this.

#### Subsidies

*Ask RDA:* How are you going to compete with Emeryville? Well, you do have another Special Power left? Subsidies. *Give RDA the subsidies wand and bag of Subsidy Goodies.* **Any kind of public money or benefit given to private companies is called a subsidy.** We talked about subsidies before. You also have that power.

What do you have in the bag of goodies there? *Pull out and show tax breaks, free land, discounted land, fee exemptions, and cash grants.*

*Say to Clones:* Is that a better deal than Emeryville? Oh yeah. Looks like the project is a go.

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Great – so you build this office. *Put up Clones-R-Us office on the board.* And you and the mayor get to cut the ribbon on opening day. And the new workers all want to live in the city too. Unfortunately, this makes rents rise – so some long-time residents get displaced. *Pull off families from the board.* How else would this neighborhood change? *Put up Starbucks, gourmet deli, high tech workers on to felt board.*

## Winners

Ask RDA: So, who are the winners in this story? How about you? Did you accomplish your mission? Did you fight that blight? Yes, you redeveloped the area, and your efforts raised property values in the neighborhood, increased the amount of tax increment revenue you are collecting, and helps you to pay off your bonds. Does that look like success to you? Oh yes.

Who else won in this story? Raise your hand.

1. Clones-R-Us – You got your office space for cheap, cheap, cheap, thanks to the subsidies you got.
2. Investors – You got your interest and tax breaks. You made your money work for you.
3. City Council and mayor – You got to cut ribbons. You got an image of your city as the cutting edge of the new economy, with new workers spending money in your city. But remember, although property taxes have skyrocketed, you're not getting much of it because of tax increment financing. The property tax revenue that you, the city, are collecting is still frozen at the low rates you were collecting at the beginning of this story. But you're getting business taxes.
4. Property owners – You got to raise your rents or sell for a lot of money.
5. And another winner – the construction industry got a lot of business.

## Losers

Who are the losers in this story?

1. Residents – Got displaced. It should help that redevelopment agencies have to spend 20% of their money on low and moderate-income housing, but

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actually they often don't spend it. Almost \$14 million went unspent in 1995.<sup>iv</sup>

2. THE PUBLIC – The public at large has lost out. Even those of you who like the new high tech image of your city have lost. Because of TIF, you've given away the right to collect increased property taxes from this area. You lost out on tax revenue to improve schools, keep libraries open, to fix the potholes in the city streets.

## Conclusion

So what is the redevelopment agency motivated by? Tax increments, raising property values. Will that serve the community's needs? Not necessarily. On the scale of what city managers wanted MOST in redevelopment, retail and office ranked highest, with multi-family residential and heavy industrial the lowest.<sup>v</sup>

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<sup>i</sup> Ibid., p. 11.

<sup>ii</sup> Chris Norby, Redevelopment: The Unknown Government. A Report to the People of California, Municipal Officials for Redevelopment Reform, Irvine CA, 1996. p. 2. Also [www.redevelopment.com/norby/redevel1.htm](http://www.redevelopment.com/norby/redevel1.htm).

<sup>iii</sup> Ibid., p. 6.

<sup>iv</sup> California State Auditor, Bureau of State Audits, Report Number 97101, March 1998.

<sup>v</sup> Public Policy Institute of California, Research Brief: "City Competition for Sales Taxes: Symptom of a Larger Problem?"