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Steven Greenhut: Budget blindsides blight barons

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A few weeks ago, I admitted a deep, dark secret: I'm enjoying this economic downturn. Despite the misunderstanding of several readers, I was not saying that I enjoy watching people lose their jobs, their fortunes, their retirement savings and their livelihoods. But it is refreshing to watch sanity return to the housing market, to see poor-performing companies (GM, Chrysler, etc.) pay the price for decades of foolish decisions, to see unions scale back their outlandish demands, and, in particular, to watch cash-strapped governments get a grip on reality. When times were flush, government made promises that couldn't be sustained, just as mortgage companies – at the urging of the feds – gave out loans that couldn't possibly be paid back. Tough economic times force people to deal with reality.

I was happy when I wrote that, but I'm even happier now, after Gov. Arnold Schwarzenegger signed into law a budget package that does not raise taxes and actually scales back spending. Sure, the deal falls far short of a permanent solution. We should all expect yet another budget crisis in a few months, given that no fundamental changes were made. But the public, in refusing to approve the tax-raising May 19 budget-related initiatives, spared itself tax increases and reminded Republicans that, yes, there is something to be gained by holding firm. Nothing good would have happened in flush times.

And something even more wonderful took place in Sacramento last week: The budget package "takes" $1.7 billion away from the state's redevelopment agencies, and the Assembly refused to pass a piece of special interest legislation promoted by that giant redevelopment agency of a town, the city of Industry, that would have allowed cities to expand redevelopment zones for 40 years without conducting a blight finding. In an up economy, the state never would have grabbed the cash, and it would almost certainly have given the redevelopment agencies that extra latitude, which Industry wanted as an obvious means to pay for the infrastructure for a new NFL stadium proposed by the city's most influential developer.

Some local politicians mistakenly decried the shift of funds from local redevelopment agencies to the state. That knee-jerk response stems from a basic, sound conservative idea that the

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government that governs best is the one that is closest to home. Unfortunately, I have found in my reporting that local governments typically govern poorly, and they are so close to home that they know where you live and can take retribution on their critics in real and troubling ways. Talk to developers some time. Most of them are terribly afraid of speaking out against city officials. They know if they do so it will suddenly become difficult to get their building plans approved.

Nevertheless, local governments are more responsive to local pressures than governments in far-off Sacramento, Washington or Brussels (if the One Worlders ever get their way!). But redevelopment agencies, although run by cities, are state agencies. But now that Sacramento is taking the money, the redevelopment types are whining about a loss of local control. I can feel the tears welling up.

As I see it, the $1.7 billion is a start. The state should take all the money from redevelopment agencies and shut them down. Debt service would have to be paid off, so it would take a while before the state recouped all its cash (about 12 percent of property taxes, or approximately $5 billion) but that's what needs to be done.

Before you start accusing me of being callous, let's remind ourselves what redevelopment agencies are all about. Originally, redevelopment law was created to help cities clean up blighted areas. But urban renewal doesn't work, and cities have long ceased targeting truly blighted neighborhoods. They instead use redevelopment as a tax-generation mechanism and a means to subsidize new shopping centers, auto malls and big-box stores.

The way it works: A redevelopment agency conducts a blight finding proving that the targeted area is, indeed, blighted. It then creates a "redevelopment area." The agency floats bonds and uses that money to subsidize developers to build new projects within the specified area. The new property tax dollars – called tax increment – pay off the bonds. The new projects provide sales and hotel taxes, which the cities use to enhance their general funds. (In reality, cities often give away so much to developers that they end up losing on the deal.)

I've seen agencies determine that entire downtowns (old downtown Anaheim and Brea), well-kept suburban neighborhoods (i.e., a nice neighborhood south of Garden Grove Boulevard), vacant desert land (in the Coachella Valley) and church properties (i.e., Cottonwood Christian Center) are blight. The real the motivation by redevelopment agencies is not to upgrade areas but to subsidize new Costcos and other tax-generating businesses. Within redevelopment areas, the government gains expanded powers of eminent domain to transfer properties to developers. The goal, again, is to maximize the tax revenue.

The U.S. Supreme Court's obnoxious Kelo decision in 2005, upholding the use of eminent domain against non-blighted properties as part of an economic development plan in a Connecticut town, sparked a nationwide debate over this issue. Most states passed eminent-domain reforms, but many of them – including those in California – were shams that tightened up some inconsequential condemnation standards but have allowed redevelopment agencies to continue along their merry path of destruction.

Basically, redevelopment gives the government central-planning powers. Redevelopment is a Soviet-like system that distorts the market (why

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do you think Southern California is awash in big-box stores?), undermines freedom and diverts tax dollars from legitimate public services to private developers. It elevates politics over the free market, given that the beneficiaries always are the politically well-connected, and the losers always are regular folks, often minorities, immigrants, the elderly and working-class people.

Go figure, then, how the California Legislature managed to get something right. It must have been by accident – and, of course, the plan will be challenged in court. For a local example of what this means, consider that Santa Ana – which stands to lose $17.5 million in redevelopment funds – will have a much tougher time implementing its Renaissance Plan, a redevelopment travesty designed to gentrify and de-Mexicanize the city's central core. This is great news and yet another happy result of the economic downturn.

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