

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 6, 2018

CAO File No. 0150-11080-0000

Council File No. 15-1195

Council District: All

To: The Mayor
The Council

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Economic and Workforce Development Department Transmittal dated January 31, 2018; Received by the City Administrative Officer on February 1, 2018; Additional information received through June 25, 2018

Subject: **REQUEST TO APPROVE PROPOSED COMMUNITY REVITALIZATION AND INVESTMENT AUTHORITY (CRIA) ESTABLISHMENT POLICY**

RECOMMENDATION

That the Council, subject to the approval of the Mayor, instruct the General Manager, Economic and Workforce Development Department, or designee, to report regarding the following pre-establishment matters related to the formation of Community Revitalization and Investment Authorities (CRIA) prior to the Council taking action on the proposed CRIA Establishment Policy:

- 1) If any geographic areas of the City qualify for CRIAs under the legislative requirements, including definition or criteria for the term "deteriorated";
- 2) Feasibility of forming a CRIA Joint Powers Agreement with other eligible taxing entities and length of time needed to generate significant revenue; and,
- 3) Based on recommendations 1 and 2 above, is it necessary to develop a CRIA policy for the City.

SUMMARY

The Economic and Workforce Development Department (EWDD) requests approval of the Community Revitalization and Investment Authority (CRIA) establishment policy proposed in their Transmittal dated January 31, 2018 and Attachment A of their Transmittal (C.F. 15-1195). EWDD proposes a policy to process requests to form a CRIA with the Mayor, Council Offices, and/or EWDD with proposed CRIA analysis on a case-by-case basis. The policy procedure consists of: 1) submittal of required information regarding the proposed CRIA via a form to EWDD; 2) preliminary assessment of the proposed CRIA by EWDD staff; 3) initial report from EWDD regarding whether formation of the proposed CRIA would be in the City interest; 4) instruction to

EWDD from Mayor and Council regarding whether to initiate a comprehensive feasibility study as required by the CRIA legislation to initiate CRIA formation; and 5) implementation of the comprehensive feasibility study by EWDD staff and/or consultants. EWDD states that, dependent on the findings of the comprehensive feasibility study, the Mayor and Council would determine whether to proceed with the formation of the proposed CRIA and that completing the steps to create a CRIA may take as long as two years. However, additional information on the Council requested pre-establishment matters regarding financial, technical, and legal considerations for CRIA establishment is needed before Council takes action. This report directs EWDD to report back with the necessary information to allow Council a more comprehensive understanding of the impacts a CRIA would have on the City.

Our Office recommends that EWDD report to Council with information regarding which areas of the City qualify for CRIAs under the legislative requirements; the length of time it would take to generate sufficient revenue in CRIAs with the City forming the CRIA alone and with other entities, including the County; and other potential cities with which the City of Los Angeles can partner in forming a joint CRIA and the length of time needed to generate sufficient revenue.

BACKGROUND

In September 2015, Governor Jerry Brown signed Assembly Bill (AB) 2 into law establishing a path for cities to establish Community Revitalization and Investment Authorities (CRIAs). Intended to replace some functions of the dissolved redevelopment authorities, CRIAs provide municipalities options to capture tax increment for the revitalization of neighborhoods. On September 23, 2016, AB 2492 was signed into law to expand CRIA eligibility requirements. AB 2492 allows the use of city or county median income, and census tracts and/or block groups as eligibility criteria to establish CRIAs. AB 2492 also allows any California Environmental Protection Agency-designated "disadvantaged community" to qualify for CRIA, based on geographic, socioeconomic, public health, and environmental factors. The CRIA is a potential economic redevelopment tool available to cities, counties, and special districts. Once established, a CRIA would allow for the diversion of tax increment up to an agreed-upon percentage from consenting tax entities to finance specified qualifying redevelopment projects. The CRIA would function as a legally constituted governmental entity independent of the city or county which established it with its own governing board, specific geographic boundaries, and eminent domain and bond issuance authorities.

On October 26, 2016, the Council instructed EWDD to: 1) report on pre-establishment matters regarding CRIAs including financial, technical, and legal matters identified in the Chief Legislative Analyst (CLA) report dated March 25, 2016; 2) prepare a City Establishment Policy; and 3) consider the City preliminary framework outlined in the CLA report (C.F. 15-1195). The financial, technical, and legal matters identified in the CLA report include but are not limited to costs to implement CRIAs, amount of time needed to generate a significant amount of tax revenue, how to determine the percentage of tax revenue to be allocated to the CRIA, feasibility of a CRIA Joint Powers Agreement with Los Angeles County, updates and refinement of the City's CRIA eligibility data, additional City requirements and priorities in forming CRIAs, and legal risks and liabilities.

EWDD's Transmittal and Attachment A present a procedure to process City requests for CRIA

formation as detailed above and an overview of the considerable legislative requirements to establish and administer a CRIA with a speculated cost up to \$600,000, exclusive of bond issuance costs. EWDD finds that CRIAs may be most appropriate and successful with the participation of multiple taxing entities, and that the City "could require" Office of the City Administrative Officer staff to provide support to CRIAs. Additionally, EWDD states that its initial evaluation of CRIA proposals will calculate the level of tax revenue to be committed by the City as the lesser of the following: 50 percent of the City's share generated in the CRIA, or the portion of the generated tax increment that would not have occurred but for the formation of the CRIA, less the costs of forming and operating the CRIA.

CRIA OVERVIEW

Twenty-five percent of revenue from the diverted tax increment in a CRIA must be allocated to low- and moderate-income housing. Eligibility to form a CRIA requires that 80 percent or more of the proposed geographic area has a median annual income less than 80 percent of the statewide, countywide, or citywide annual median income, and meets three of the following four conditions: unemployment rate at least three percent higher than the statewide median unemployment rate as published by the California Employment Development Department; crime rate five percent higher than the statewide average; deteriorated public infrastructure (streets, sidewalks, parks, water supply, etc.); and/or deteriorated commercial or residential structures. EWDD states that the term 'deteriorated' is undefined and open to interpretation. A CRIA may be formed by a city, county or special district alone or jointly with another taxing entity using a joint powers agreement while educational taxing entities such as school districts are not eligible to participate. Areas which include former CRA/LA Redevelopment Project Areas retain priority on tax increment for the payment of on-going enforceable obligations prior to the distribution of the funds. CRIAs are governed by a Board that is appointed by the legislative body of the taxing entities creating the CRIA. The Board must include three members of the taxing entities' legislative bodies and two members of the public who live or work within the geographic boundaries of the CRIA.

Approved authority and uses include but are not limited to rehabilitation, repair, upgrading, or construction of infrastructure; low- and moderate-income housing; removal of hazardous waste; seismic retrofits of existing buildings; acquisition and transfer of real property (including through eminent domain authority); issuance of bonds; borrowing money, receiving grants, or accepting financial or other assistance or investment; adoption of a community revitalization and investment plan; and making loans or grants for owners or tenants to improve, rehabilitate, or retrofit buildings or structures within the plan area.

Each CRIA must have a community-approved Plan with a statement of goals and objectives and description of the area covered by the Plan. The Plan must also include a description of deteriorated infrastructure, plans for infrastructure improvement or replacement, program regarding the 25 percent housing requirement, and other qualified funding uses intended to be addressed by the CRIA. The CRIA Plan must also include a fiscal analysis of the projected revenue and expenses over a five-year period including potential issuance of bonds backed by the term of the Plan. Prior to approval, the Plan requires three public hearings each to be held at least 30 days apart. If 25 to 50 percent of community members within the CRIA geographic area

protest the Plan, a vote must be held. The Plan may only be adopted if 50 percent plus one of the voters approve the Plan. Should the Plan fail to receive majority approval of the voters, it cannot be implemented and a new or revised plan cannot be proposed to the affected property owners for at least one year.

It is unclear which, if any, geographic areas of the City would qualify to form a CRIA under the legislative requirements. In January 2016, EWDD's consultant Neighborhood Analytics presented a preliminary analysis which found that four of the 31 former Community Redevelopment Agency Los Angeles (CRA/LA) Project Areas qualified under two of the four conditions required for the formation of a CRIA (C.F. 15-1195). Given that none of the former CRA/LA areas would qualify as a CRIA, it is questionable whether any area of the City would qualify. The EWDD states that CRIAs may be most successful when established jointly with multiple taxing entities due to the increased level of tax increment diverted for the proposed CRIA. In August 2017, the Los Angeles County Board of Supervisors approved a policy for evaluating County proposals for CRIA formation with seven minimum requirements. The County requirements include a minimum of 15 cents of tax increment pledged from participant cities for every one dollar captured in CRIA Redevelopment Project Areas and that participant cities must contribute at least the same amount as the County and its special districts. Additionally, as independent governmental entities, CRIAs require resources for auditing, accounting, and other administrative activities mandated by the legislation. This report recommends that EWDD report back with the feasibility of partnering with other taxing entities such as the County.

FISCAL IMPACT STATEMENT

Approval of the Recommendations in this Report will have no impact on the General Fund. The costs of a comprehensive feasibility study and the establishment of a Community Revitalization and Investment Authority (CRIA) would have direct negative impacts on the General Fund. CRIAs divert tax revenue generated for the City General Fund to specified place-based redevelopment projects and related administrative support. The exact amount of these fiscal impacts is unknown at this time.