Community Redevelopment Agencies Stifle Urban Development

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In June of 2017, the FBI subpoenaed the city of Tallahassee and the regional Community Reinvestment Agency, or CRA, for documents relating to deals with local business owners as part of a federal criminal investigation. While the outcome of the grand jury deliberations has not been released as this article goes to press, the subpoenas are part of a multiyear probe into local corruption and business development.

CRAs are narrowly-defined special district governments tasked with redeveloping urban slums or blighted areas. Although called "agencies" and controlled by city and county officials, CRAs are usually autonomous legal entities separate from general purpose governments. Florida's legislature allowed for the formation of

CRAs when it passed the Community Redevelopment Act of 1969. Today, 219 CRAs are active in Florida. In fiscal year 2014-2015, Florida CRAs reported $594.4 million in revenues, $605.2 million in expenditures, and $714.5 million in debt. Over ten years, Florida CRAs issued $1.34 billion in bonds.[1]

This article reviews CRAs, their purpose, and what the academic research suggests about their impact. Unfortunately, the problems with CRAs appear to be systemic. Past probes in Florida and around the nation have revealed both mismanagement and cronyism, suggesting the Florida case is not an isolated one.

Community Redevelopment in Florida

CRAs are established when two governmental units, usually a city and county, enter into an agreement to revitalize an area within their boundaries. A redevelopment agency board typically consists of city and county commissioners and sometimes local business people, assisted by paid staff. A CRA first conducts a "finding of necessity," a survey of sources of "blight" or "slum" in a prospective district. Up to 80 percent of a municipality's area can be placed within CRA boundaries. The agencies' primary tool for revitalizing an area is a subsidy to private construction and land development companies, but they also might fund infrastructure, local business grants, and initiatives to promote the arts and culture.

After establishing the agency boundaries, government officials draft a Community Redevelopment Plan and establish a fund for its activities. CRAs can attract grants, issue revenue bonds and receive intergovernmental transfers, but primarily raise revenue through the increasingly popular tax increment financing (TIF). With TIF, tax revenues generated from future increases in the tax base fund the CRA's activities.

However, transparency requirements for bids received by city and county governments don't necessarily apply to Florida CRAs. A 2016 report by a Miami-Dade grand jury found that Miami's agencies, unlike general purpose governments, "are free to solicit a particular person or company to do a specific project without a competitive bidding process."[2] Not surprisingly, business owners, community leaders, and developers make bid offers and deliver presentations highlighting the benefits their project could generate. Few independent neutral parties make presentations on the potential costs.

Tax Increment Financing

TIFs are now the most widely utilized financing tool for economic development programs in the U.S.[3] Arizona is the only state that does not allow its use.[4] In Florida, voters originally defeated a constitutional amendment to adopt TIFs in 1976, but the legislature approved the practice by statutory amendment the following year. Although this local government financing tool was initially intended to enable urban renewal of blighted areas, many jurisdictions now use it to spur economic development more generally.

In theory, economic development should spur an increase in a city's property values. TIFs receive the revenue generated by the increase—the "increment"—to fund their programs. Increased property values, however, are not necessarily assured, and a poorly designed TIF can create inequities in financing public services. City and county governments sometimes increase taxes to compensate for revenue redistributed through TIF funded projects. Maintaining a level of public services has sometimes resulted in temporary tax increases while TIF districts are in effect.[5]

The economic impacts of TIF financing are mixed at best. A study by economists at the University of Illinois found that property values in cities with TIF-districts grow at the same rate or slower than cities that voice this method of subsidizing development.[6] They conclude that higher growth in TIF-districts comes at the expense of non-TIF districts, leading to a lower growth rate for the whole city. Cities may also face pressure to bolster redevelopment agencies that might be underperforming. For example, at a March 2015 meeting, agency board members in Tallahassee considered funding a business magnet program to relocate existing businesses into a CRA district.[7] City Commissioner Scott Maddox wisely noted that this program would merely redistribute businesses within the city, and therefore would not likely contribute to overall growth. To the extent that CRAs redirect economic activity toward unproductive activities, they do more harm than good. This harm is magnified as other cities employ TIF to compete for businesses.[8]

Political Entrepreneurship and Community Redevelopment

CRAs may be inconsistent with an appropriate role of government in a market economy. As redevelopment agencies attempt to increase real-estate prices to boost property tax revenue, they may distort market prices and encourage a misallocation of scarce resources from productive to relatively less productive uses. In Tallahassee, for example, the redevelopment agency has assisted in the redevelopment of old warehouses near the Florida State University and Florida A&M campuses. But other projects have proved unprofitable and unviable. Picking winners and losers in the market is fraught with uncertainty, making the goal of economic redevelopment difficult to achieve through targeted subsidies.

Furthermore, local officials have tended to adopt more expansive definitions of blight in order to use redevelopment agencies to subsidize a wider range of development projects. A 2009 study of 173 Florida jurisdictions found a "deep disconnect" between their stated goals of reducing blight and the content of their redevelopment plans.[9] Delray, FL's CRA, for example, has been criticized for furthering development in already thriving areas rather than in blighted sections of the city.[10]

While local redevelopment agency spending priorities may simply reflect the local population's need for public services, public officials and businesses game the political system to their advantage. Economists Richard Wagner and Alex Fink characterize the formation of special districts like redevelopment agencies as political entrepreneurship.[11] For example, local governments sometimes create "off-budget enterprises" as a way to avoid statutory constraints such as balanced budget requirements.[12] Special districts, notes economist Thomas DiLorenzo, "are created by state and local governments, which could issue bonds that are not subject to the legal restrictions on public debt or even to voter approval." Indeed, an examination of 575 community development districts in the state of Florida by the LeRoy Collins Institute at Florida State University found that 40 percent were experiencing financial or fiscal distress, and these declines were more severe than in other types of special districts."[13]

Special districts are not in and of themselves products of political gamesmanship. However, their expected benefits must be weighed against the potential costs of cronyism and government failure. Law professor Robin Paul Malloy argues that entities such as CRAs insulate public finance from proper public scrutiny and represent an erosion of democracy itself. In Planning for Serfdom, Malloy distinguishes sharply between the public provision of law enforcement, education, and infrastructure consistent with a classically liberal political economy, and the inherently illiberal favoritism of modern urban redevelopment planning common since the 1960s.

Conclusion

Numerous examples of corruption in CRAs have exposed the potential for political entrepreneurship and cronyism to erode the effectiveness of redevelopment authorities.[14] Sometimes these efforts are blatant, such as the case in Chicago where TIF funds were given to developers who made campaign contributions to local politicians.[15] Often, the funds are mismanaged or lack sufficient transparency for the agencies to be held accountable for outcomes.[16] In 2011, California eliminated all 400 local redevelopment entities after they diverted taxes toward pet projects of influential locals and failed to achieve their mission.[17]

The combination of the broad mandate of CRAs to redevelop blighted areas, their ability to make targeted public investments in private businesses, and their lack of accountability and transparency make them especially vulnerable to corruption and mismanagement. Public infrastructure funded by CRAs could be provided more transparently by city and county governments. The same goes for arts and culture initiatives and small business grant programs.

As currently structured, many community redevelopment agencies divert funds from vital public services to pet projects of well-connected local elites. Free markets and private enterprise are essential for sustainable community development. A proper role of government in such a market economy is to provide broadly-shared public goods and fair rules for private enterprises to compete on a fair playing field with broadly accessible, transparent regulatory systems and adequate physical infrastructure. Community redevelopment agencies, however, have a long way to go before they fit that bill as a general tool for redeveloping blighted areas of cities.

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