

**THE IMPACT OF FISCAL 2001-02 COMMUNITY
REDEVELOPMENT AGENCY ACTIVITIES ON THE
CALIFORNIA ECONOMY**

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Funded by the California Redevelopment Association

January 22, 2004



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1 Summary and Conclusions

The activities of California redevelopment agencies (RDA's) have a significant and positive impact on the economy of California. The combined construction in RDA project areas and RDA participation in construction outside project areas increased 2001-02 production (output) for the California economy by between 1.2% and 2.2% of 2001 state output (from the 2004 version of IMPLAN). For the same year income was increased by between 1.0% and 1.8% and RDA-associated construction activity was responsible for between 1.3% and 2.2% of total state employment.

RDA-associated construction activity increased state output by between \$27.5 billion and \$48.8 billion in the 2001-02 fiscal year. State income was from \$13.9 billion to \$24.7 billion higher as a result of RDA-associated construction during that year, while an additional 253 thousand to 450 thousand jobs were created. That same construction activity resulted in significantly higher tax revenues for state and local governments, with an increase of between \$1.1 billion and \$2.0 billion for 2001-02.

The impact on California's construction sector in 2001-02 was even more pronounced. RDA activities resulted in an increase in state construction sector output of between 12.6% and 22.5% of 2001 levels. The estimated increase in income to owners and employees within the construction industry ranges from 11.7% to 20.8%. RDA-associated construction activity was also responsible for between 10.5% and 18.7% of industry employment (as a percentage of 2001 construction employment).

Impacts per dollar of RDA spending are an indicator of the effectiveness of agency programs and policies. While this study was not undertaken with the intention of completing a comprehensive cost-benefit analysis of RDA programs, the economic impacts of the programs provide ample justification for current levels of agency expenditures. The results of this study indicate that each dollar of agency spending generates between \$8.00 and \$14.21 in additional output for the California economy. It was also found that the average dollar of RDA spending increases state income by between \$4.05 and \$7.20.¹ Estimates of employment per million dollars of agency spending ranged from 74 to 131 for an average agency cost of \$7,638 to \$13,561 per job created.

The economic impact estimates presented in this report indicate that a reduction in state funding for RDA's will have a significant adverse impact on the California economy, particularly on the construction industry. In addition, each dollar reduction in RDA funding will reduce the state budget deficit by considerably less than a dollar. It is estimated that for each dollar RDA expenditures are reduced, state and local tax revenues decline by between \$0.33 and \$0.59. Therefore, a dollar in reduced RDA funding levels will reduce the deficits facing state and local government units by between \$0.41 and \$0.67, not the full dollar. Furthermore, the impact on total assessed value and the

¹ Although the likely estimates can be narrowed further from the ranges presented here, the full range of estimates obtained from the study methodology are presented. The likely range is approximately 25% higher than the minimum to 10% below the maximum.

resulting changes in property tax revenues, due to a reduction in RDA funding, will have an impact on future state and local government revenues. This additional revenue impact is not included in the analysis since the tax impacts estimated in the IMPLAN model used in this study are for the project construction phase only.

2 Introduction

2.1 Purpose of the Study

The California Redevelopment Association (CRA) has contracted with the Center for Economic Development at California State University, Chico (CED) to study the economic impact on the state of California of construction activity resulting from the actions of local redevelopment agencies (RDA's). The impacts are estimated for new construction and structure rehabilitation activity within the project areas administered by the RDA's and for low- and moderate-income housing and associated infrastructure constructed outside the project areas, but with RDA participation.

2.2 Need for RDA Economic Impact Analysis

Redevelopment has been an effective tool for the financing and development of housing, infrastructure and commercial/industrial facilities in California for more than five decades. Redevelopment has also been a major source of employment, income and tax revenue for local communities over this period. Most California cities and many counties have active redevelopment agencies that administer redevelopment programs in urban, rural, and suburban jurisdictions throughout the State.

Despite the important role of redevelopment in California, little data and information is regularly gathered on the economic impact of the program. For example, the report on redevelopment agency activities by the office of the Controller makes no attempt to assess the economic impact of redevelopment on cities and counties or statewide. Likewise, the annual report on RDA housing activities by the California Department of Housing and Community Development (CDHCD) quantifies housing production financed by RDA's, but only in terms of the number of housing units produced. Limited reporting leads to a lack of appreciation of the economic impact of redevelopment in California, both locally and statewide.

2.3 Structure of the Economic Impact Estimates

Economic impacts are estimated in the form of total output, income, employment and state and local taxes generated by statewide RDA activities during the 2001-02 fiscal year. The estimates are based on the value of construction for those projects completed during fiscal 2001-02. In addition to the total impact estimates, the results are presented in terms of the impacts per dollar of agency spending. The latter is defined in two ways. First, the agency expenditure data (from the Annual Controller's Report) are used to compile estimates of the annual (2001-02) cost of operating the agency and its projects. Second, for those agencies sampled for the study, the total agency project cost, for the life of the tabulated projects, is reported directly by the participating agencies.

2.4 Redevelopment Agencies

The Community Redevelopment law was enacted in 1951 for the purpose of redeveloping those economically disadvantaged areas within California cities and counties containing properties that are substantially deteriorated, unsafe, or otherwise unfit for the intended uses. Funding was provided by a voter-approved constitutional amendment passed in 1952 authorizing the use of property tax funds for redevelopment purposes. The amendment enabled the city or county, through a community redevelopment agency, to borrow against future property tax revenues. The borrowed funds are repaid through the additional tax revenues (the tax increment) resulting from the increase in assessed value redevelopment projects generate. Authority and responsibility for administering and financing local redevelopment projects is granted to the local redevelopment agency. These agencies are ordinarily associated with a city, but many have been created under county auspices.

Redevelopment occurs within project areas and a particular redevelopment agency may have authority over a number of project areas. Funded projects may include public infrastructure such as streets, street lighting, parks, and public buildings; industrial and commercial development; low- and moderate-income housing; and other residential development (unrestricted). In addition, funded projects can be classified either as new construction or rehabilitation. Redevelopment agencies may also provide financial assistance including, but not limited to, rent subsidies, relocation grants, and other support for low-income households, and, consulting or other services to small businesses.

Statewide revenues to redevelopment agencies totaled just over \$6 billion in 2001-2002. Agency funding came primarily from taxes and assessments (42.6%), the bulk of that coming from the tax increment. Other funding sources included proceeds of long term debt (25.3%); proceeds of refunding bonds (15.4%); and interest (5.2%). The remaining 11.5% fell into either of two categories: other revenues (8.5%) or advances (3.0%). (CRAAR 2001-02)

2.5 Types of Projects Completed

The most recent State Controller's Report contains a listing of the reported accomplishments of the various RDA's for fiscal year 2001-02. Some excerpts from that report will serve to indicate the range of projects funded by RDA's. For example, the Redevelopment Agency for the City of Merced is completing renovation of the old City Hall/Fire Station building; constructing a two-story Victorian home for low- or moderate-income buyers; completing construction on a 17,000 square foot youth center; and completing an expansion project for the senior center. The Napa Community Redevelopment Agency is in the process of finishing construction on 20,000 square feet of office space and 10,000 square feet of retail space; rehabilitating a 4327 square foot general store; completing construction on a 70,000 square foot cultural center; concluding a seismic retrofit for the Napa Register Building; and completing four renovation projects under the Façade Improvement Program. The City of San Mateo Redevelopment Agency is in the final stages of rehabilitating a 16-unit and a 9-unit apartment building; completing construction of 44 apartment units; assisting two businesses through the

Storefront Improvement Program; completing minor home repairs and exterior painting for 32 low income families under the Minor Home Repair/Free Paint Program; assisting seven households with rehabilitation loans through the Housing Rehabilitation Program; and assisting 25 low-income families through the First-Time Homebuyers Program. (CRAAR 2001-02)

2.6 Attracting Investment and Jobs

RDA activities generate benefits through a number of avenues. First, during the construction phase of a project, RDA funding leverages private investment funds, leading to a dollar value of construction spending considerably greater than direct agency expenditures. The dollar value of spending has a direct impact on income and employment in the local construction sector, but also generates additional income and employment in (1) those businesses supplying goods and services to the construction industry, and in (2) unrelated business through the expenditure of the additional income. Second, where the construction creates industrial or commercial structures, the businesses housed in those new or renovated buildings generate additional income and employment. Third, while public infrastructure investment and the construction of low- and moderate-income housing do not generate income and employment beyond the project construction phase, they do improve the quality of life and produce annual services of significant value to those who receive them. Public parks, improved street lighting, and public buildings all provide annual services to residents, increasing their living standards, if not their income. The provision of housing for low- and moderate-income households raises living standards, either in terms of reducing the cost of housing of a given quality, or by allowing those families to afford better quality housing.

3 Methodology

3.1 General Approach

The discussion of income and employment impacts in the preceding section addresses the avenues through which RDA activity can affect income and employment at the state and local level. However, due to time and budget limitations, the impact estimates developed in this study are limited to those occurring during the project construction phase. The value of ongoing employment and income associated with new commercial and industrial development, and, the annual services generated by public infrastructure and low- and moderate-income housing investment is not included in the economic impact estimates.

In order to estimate the economic impact of construction activity within the state's RDA's it is necessary to choose a particular time interval for the analysis. Data availability dictates that the 2001-02 year be used since that is the last year for which detailed information was published by the State Controller's Office. The analytical perspective is further constrained by accessibility of construction expenditure data. For that reason the estimates are performed based on projects completed within the 2001-02 fiscal year, not construction expenditures in that year. During any given year there might be a considerable amount of ongoing construction that does not affect the economic

impact calculations as presented here. Conversely, projects completed during the year may have been in the construction phase for an extended period prior to 2001-02. However, by examining a sufficiently large number of project areas during the same year, the value of completed projects should provide a reasonable approximation of construction activity for that year.²

3.1.1 Year

The analysis is done for the 2001-02 fiscal year. That is the latest year for which complete data are available.

3.1.2 Survey Data

A survey of a sample of RDA's was administered in order to acquire data not available in the Annual Controller's Report. The survey requested an estimate of the value of all construction projects completed during the 2001-02 fiscal year separated by industrial, commercial, residential, and public infrastructure. In addition, the survey solicited information regarding each agency's project cost for the life of the included projects. For project costs the sampled agencies were instructed to follow the same format as required for reporting to the Controller's Office. A copy of the survey is included in Appendix A.

3.2 Sampling Criteria

3.2.1 Purpose of Choosing a Representative Cross Section of Agencies

The statewide economic impact projections included in this report are derived from the ratio of the construction cost of completed projects to the agency cost of the projects. It is the sample, and the ratio of construction value to the agency cost from that sample, that is used to determine statewide construction activity for the year. Therefore, it is important that the sample be representative of all RDA's within California.

3.2.2 Profile of the State's RDA and Project Areas

There are 360 city-associated redevelopment agencies within the state of California. The majority of those agencies (61.1%), or 220, are associated with cities with populations of 50,000 or less. Cities of 50,000-100,000 contain an additional 83 agencies, while cities of 100,000-250,000 and over 250,000 have 44 and 13 associated agencies, respectively.

The size of project areas varies widely, from 2 acres to 46,000 acres, while most (72.5%) fall within the range of 100 to 2500 acres. Those over 2500 acres and under 100 acres constitute 12.6% and 14.9% of the total, respectively. (CRAAR 2001-02)

² This approach actually tends to underestimate the amount of construction activity occurring during the 2001-02 fiscal year. That is because, with an increasing amount of building activity, the value of projects in earlier stages of construction exceeds the value of those projects completed. While this approach will always tend to understate the derived economic impacts in a growing economy, the downside bias is much greater in the post-2000 economic environment with interest rates at 40-year lows. The overall weakness in the economy after 2000 did not extend to the real estate and construction sectors, and even led to an industry boom, particularly in California RDA's.

3.2.3 Sample Characteristics

The active RDA's are first sorted according to the population of the associated city. Within each population-defined sample segment RDA's were selected for inclusion based on how closely they represent the average for that population group. The primary choice criteria include the size of the project area (in acres) and the percentage of the land that is defined as developed as of 2001-02. In addition, certain supplementary criteria are applied in order to improve the sampling procedure. In particular, project areas are included in the sample in order to give representation to RDA's in the northern and southern parts of the state and to urban and rural agencies. A further constraint is imposed on the sampling process in that no agency is included if it was established less than 10 years prior to 2001-02.

3.2.4 Agencies Responding to the Survey³

Table 1 contains a listing of the RDA's that submitted data in response to our survey. The RDA's are classified according to the population of the associated city, the size of the project areas in acres, and the percentage of the land in the project areas that is developed (as of the 2001-02 fiscal year).

Table 1: City Redevelopment Areas Surveyed: City Population and RDA Characteristics

City	City Population (January 2002)*	Acres in Project Areas **	Percent of Project Areas Developed (2001-02) **
Healdsburg	11,450	1,221	85.00%
Indio	52,200	1,597	64.00%
Los Angeles	3,805,400	22,129	87.49%
Redding	84,600	9,822	81.41%
Sacramento	424,400	15,463	87.34%
Santa Ana	342,800	13,589	93.23%

*State of California, Department of Finance, *E-1 City/County Population Estimates, with Annual Percent Change, January 1, 2002 and 2003*. Sacramento, California, May 2003
** State of California, *Community Redevelopment Agencies Annual Report, 2001-02*

3.3 Results from the Sample

3.3.1 Activity by Sector: Residential, Commercial, Industrial, and Public Infrastructure

Table 2 contains the construction activity totals from the six RDA's responding to the survey. The amounts listed in the second column are for projects completed during the 2001-02 fiscal year. Construction spending within the project areas and those projects completed outside of the project areas, but with agency participation, totaled \$988,391,097. New industrial and commercial construction within the project areas was 70.44 % of the total, while new residential building was 12.77% of total spending. Overall, new construction within the project areas constituted 84.46% of the total

³ Two additional RDA's sent the requested data after the deadline for the draft report. Although that information is not included in the calculations, it provided further confirmation of the results.

construction value of RDA-associated projects during the 2001-02 fiscal year. In addition, 8.47% of the total was for property rehabilitation within the project areas. New construction outside of the project areas, but with agency participation, was 3.61% of the total, with the majority, or 3.58% of the total, for low- and moderate-income housing. RDA-associated rehabilitation outside of the project areas was 3.46% of the total, with this construction activity exclusively in the low- and moderate-income housing and public infrastructure categories.

Table 2: RDA-Associated Construction Activity: By Type and the Total for All RDA's Sampled

Project Categories	Total Construction Spending: Projects Completed in Fiscal 2001-02	Percent of Total
New Construction within Project Areas		84.46%
Total Industrial/Commercial	\$696,225,268	70.44%
Utility Construction	\$75,000	0.01%
Residential: Low and Moderate Income	\$116,846,314	11.82%
Residential: Unrestricted	\$9,359,436	0.95%
Total New Residential	\$126,205,750	12.77%
Public Infrastructure	\$12,314,879	1.25%
Rehabilitation Construction Spending within Project Areas		8.47%
Total Industrial/Commercial	\$44,583,433	4.51%
Residential: Low and Moderate Income	\$6,940,562	0.70%
Residential: Unrestricted	\$1,471,750	0.15%
Total Residential Rehab	\$8,412,312	0.85%
Public Infrastructure	\$30,671,991	3.10%
Agency-Financed New Construction Outside the Project Areas		3.61%
Residential: Low and Moderate Income	\$35,356,600	3.58%
Public Infrastructure	\$316,877	0.03%
Agency-Financed Rehabilitation Construction Outside the Project Areas		3.46%
Residential: Low and Moderate Income	\$14,514,950	1.47%
Public Infrastructure	\$19,714,036	1.99%
Total Construction Spending	\$988,391,097	100.00%

3.3.2 The Ratio of the Value of Completed Construction to Agency Cost

3.3.2.1 Based on Controller's Data for 2001-02

For the six RDA's included in the sample, agency expenditures for the 2001-02 fiscal year totaled \$219,914,693 (CRAAR 2001-02). RDA-associated construction spending totaled \$988,391,097. Therefore, using the Controller's data for the 2001-02 fiscal year, the ratio of RDA-associated construction spending to agency expenditures is 4.49. This implies that each dollar of RDA spending generates \$4.49 in total construction activity.

3.3.2.2 Based on Reported Agency Cost for the Life of the Project

The six RDA's included in the sample reported life of project costs for projects completed during the 2001-02 fiscal year totaling \$123,852,117. Dividing total RDA-associated construction spending by reported agency life of project costs yields a ratio of 7.98. Using this approach, each dollar of agency spending generates \$7.98 in construction spending.

3.3.2.3 Reconciling the Two Approaches

Agency expenditures for 2001-02 from the Controller's Report are likely to lead to overstatement of agency cost associated with projects completed in the same year. That is because the actual agency expenses incurred in the process of developing those projects were from the years during which the projects were in the planning and construction phases. Suppose, for example, that the time interval from project planning to completion is three years. Then project-associated spending for projects completed in fiscal 2001-02 would be incurred beginning in the 1998-99 fiscal year. Statewide RDA spending increased at an average annual rate of 8.39% over the three-year period from 1998-99 to 2001-02. Then, if agency spending on projects completed in 2001-02 were uniform over the prior three-year period, use of the Controller's data would lead to a 17.6% understatement of the ratio of total construction to agency expenditures. The understatement would be less, or just 8.5%, if the three-year construction period included the 2001-02 fiscal year. Adjusting the derived ratio for the impact of expenditure growth increases it from 4.49 to between 4.88 (8.5% higher) and 5.29 (17.6% higher).

Even after adjusting for growth in agency spending, there remains a considerable difference between the ratios of total construction spending to agency cost derived from the Controller's data and the life of project costs from the survey. There are three additional explanations for the difference. First, it is possible that the surveyed RDA's were unable to allocate all actual project expenditures to the projects completed in 2001-02. The data collection task was a particularly difficult one, especially in light of the differences between our data requirements and the structure of data reporting dictated by accounting needs of the Controller's Office. Second, it is possible that because only a single year was used, relatively few projects, except those with significant agency financial involvement, were completed during that particular year. Third, because of the difficulty of collecting some construction cost data, it is possible that a number of projects, particularly those that did not have an agency financing component, were left out of the construction expenditures totals. We know of at least one RDA in the survey

that was unable to assemble any data for projects that were completed within the project areas, but did not involve agency funding.

Of the three additional explanations for the differences in the derived ratios of construction to agency cost, the first implies that it is ratio derived from the reported life of project costs that is too high (the 7.98). In contrast, if the second and third explanations are dominant, both of the derived ratios are too low. In any case, since it is impossible to completely reconcile the two ratios of RDA-associated construction costs to agency expenditures, all construction expenditure and economic impact estimates are presented as a range.

3.3.3 Extrapolating from the Sample to the State

3.3.3.1 Definition of Total Agency Cost

Data for tabulating agency cost for 2001-02 is taken directly from Table 4 of the Annual Controller’s Report. The definition of annual agency cost employed, which is strictly an operating cost definition, includes all RDA expenditures with the exception of debt principal payments. The statewide total for all RDA’s in 2001-02 was \$3,433,547,762. The only agency expenditures excluded from this definition are debt principal payments. While debt repayment is an expense, it also adds to equity, and thus it is a cost item that is offset by its positive effect on net worth. The amount of statewide RDA expenditures excluded from this definition of agency cost is \$646,628,024 (CRAAR 2001-02).

Table 3- Estimated Statewide RDA-Associated Construction Activity for the 2001-02 Fiscal Year

	Controllers Report	Life of Projects
Agency Cost in Sample	\$219,914,693	\$123,852,117
Agency Cost: All RDA's	\$3,433,547,762	\$3,433,547,762
Ratio of Total to Sample	15.61	27.72
Construction Spending (2001-02) for RDA's in the Sample	\$988,391,097	\$988,391,097
Estimated Statewide RDA Construction Spending for 2001-02	\$15,431,838,553	\$27,401,130,537

3.3.3.2 Based on Controller’s Data for 2001-02

Statewide construction activity is calculated as the value of construction within the sample RDA’s, times the ratio of statewide agency expenditures (\$3,433,547,762) to the sample agency expenditures (CRAAR 2001-02). The agencies in the sample represent 6.4% of statewide RDA expenditures. Therefore the statewide RDA construction activity is projected to be 15.61 times the amount for the RDA’s in the sample. Table 3 lists total

construction activity from the sample RDA's as \$988,391,097. Using this method, statewide RDA-associated construction activity is estimated to be \$15,431,838,553.⁴

3.3.3.3 Based on Reported Agency Cost for the Life of the Project

Dividing the total agency expenditures for all state RDA's by the sum of the agency life of project costs for projects completed provides an alternative means of estimating statewide RDA-associated construction activity. The life of project costs for completed projects reported on the surveys total \$123,852,117. The result of dividing the project costs into the total 2001-02 agency costs (\$3,433,547,762) is 27.72, implying that statewide RDA-associated construction activity is 27.72 times that from the sample data. Total construction activity from the sample RDA's is \$988,391,097. Using this method, statewide RDA-associated construction activity is estimated to be \$27,401,130,537.³

3.4 The IMPLAN Input-Output Model

3.4.1 General Description of the Model

In order to determine the total impact on county income and employment, direct construction expenditures are entered into the appropriate sector of the IMPLAN model for the California economy. IMPLAN is an input-output model (I-O) that separates the economy into 528 industrial sectors, classifying each according to the primary product or service it provides.⁵ The transaction matrix is the model that estimates impacts. The transaction matrix contains the purchases and sales that occur among the various sectors. The column entries are the purchases made by a particular sector from all other sectors included in the model. The row elements are the industry destinations of the sector's sales. The I-O model permits assessment of the total impact of an initial change in income or expenditures.

The total impact is the sum of the direct, indirect, and induced impacts. The indirect impacts are the result of purchases (by the sectors directly affected) from local industries supplying inputs. The induced effects are due to the spending of additional income earned through the enhanced business activity generated by the direct impacts. The model output includes estimated impacts on output, income, employment and state and local taxes.

3.4.2 The Use of IMPLAN in this Study

The IMPLAN model includes seven sectors within the broader construction sector applicable to the analysis carried out in this study. Construction expenditures are entered into the sector most closely matching the characteristics of the completed project. There are five IMPLAN sectors inclusive of the types of new construction occurring within

⁴ All statewide impacts by sector are generated from construction activity estimates and are included in the results section (Section 4) of the report.

⁵ See <http://www.implan.com/about.html> for a list of state and federal government agencies, academic institutions, and private organizations using IMPLAN for impact assessment.

RDA project areas. Expenditures for new construction are allocated to sectors 48, new residential construction; 49, new industrial buildings; 50, new utility structures; 51, new highways and streets; and 54, new government facilities. Expenditures for structure rehabilitation are entered into sectors 55, residential maintenance and repair and 56, maintenance and repair for other facilities (MIG 2000).

3.4.3 IMPLAN Multipliers for the State of California

Tables 4 through 6 provide the impacts on the California economy for \$1 million in expenditures in each of the applicable construction sectors. Table 4 contains the total impacts for output, income, and employment. Table 5 separates the income and employment impacts into direct, indirect, induced, and total. Table 6 lists the impacts on state and local tax revenues.

Table 4: The Total Impacts of \$1 Million in Construction Spending on California Output, Income, and Employment

Sec #	Sector	Output	Income	Employment
48	New Residential Construction	\$1,791,597	\$759,227	15.4
49	New Industrial and Commercial Buildings	\$1,778,722	\$907,035	16.1
50	New Utility Structures	\$1,781,454	\$1,007,534	17.8
51	New Streets and Roads	\$1,744,030	\$885,498	15.3
54	New Government Facilities	\$1,804,613	\$939,919	14.5
55	Residential Maintenance and Repair	\$1,861,855	\$834,560	16.2
56	Maintenance and Repair: Other Facilities	\$1,753,965	\$1,117,211	21.0

Table 5: The Direct, Indirect, Induced and Total Impacts of \$1 Million in Construction Spending on California Income and Employment

Sec #	Sector	Income				Employment			
		Direct	Indirect	Induced	Total	Direct	Indirect	Induced	Total
48	New Residential Construction	\$268,974	\$302,458	\$187,795	\$759,227	7.0	5.1	3.3	15.4
49	New Industrial and Commercial Buildings	\$429,257	\$239,313	\$238,464	\$907,035	7.8	4.1	4.2	16.1
50	New Utility Structures	\$527,386	\$210,792	\$269,357	\$1,007,534	9.4	3.7	4.7	17.8
51	New Streets and Roads	\$440,178	\$218,894	\$226,427	\$885,498	7.9	3.5	4.0	15.3
54	New Government Facilities	\$448,093	\$246,157	\$245,669	\$939,919	5.8	4.4	4.3	14.5
55	Residential Maintenance and Repair	\$303,086	\$312,777	\$218,697	\$834,560	7.0	5.4	3.8	16.2
56	Maintenance and Repair: Other Facilities	\$647,731	\$154,754	\$314,726	\$1,117,211	12.9	2.6	5.5	21.0

Table 6: The Impact of \$1 Million in Construction Spending on Property and Total Tax Revenues to California State and Local Governments

Sec #	Sector	Property Taxes	Total State and Local Taxes
48	New Residential Construction	\$16,994	\$69,573
49	New Industrial and Commercial Buildings	\$15,998	\$74,520
50	New Utility Structures	\$14,595	\$73,719
51	New Streets and Roads	\$13,262	\$65,545
54	New Government Facilities	\$14,688	\$68,513
55	Residential Maintenance and Repair	\$15,750	\$71,542
56	Maintenance and Repair: Other Facilities	\$13,762	\$72,699

4 Study Results

4.1 From the Sampled RDA's

Construction spending is allocated to the appropriate IMPLAN sector in order to generate the total impacts on output, income, employment, and state and local taxes for the RDA's

in the sample. Table 7 contains the sector allocations that are used to develop the economic impact calculations contained in Tables 8-10.

Table 7- Allocation of Construction Spending from the RDA's in the Sample to the Applicable IMPLAN Construction Sectors

Sector #	Sector	Total
48	New Residential Construction	\$161,562,350
49	New Industrial and Commercial Buildings	\$696,225,268
50	New Utility Structures	\$75,000
51	New Highways and Streets	\$1,304,846
54	New Government Facilities	\$11,326,909
55	Residential Maintenance and Repair	\$22,927,262
56	Maintenance and Repair: Other Facilities	\$94,969,460

4.1.1 Output⁶

Total statewide output resulting from the construction activities associated with the RDA's in the sample was \$1,759,956,006 for the 2001-02 fiscal year. The total impact is the sum of the direct, indirect, and induced effects. Of that amount \$999,899,068 or 56.81% of total output was generated in the construction sector. Other sectors receiving a significant stimulus include services (\$262,715,432 or 14.93% of the total); wholesale and retail trade (\$180,736,192 or 10.27% of the total); finance, insurance and real estate (\$118,693,236 or 6.74% of the total); and manufacturing (\$113,984,908 or 6.48% of the total). The output impacts by sector are listed in Table 8.

⁶ Output is defined as the total value of goods and services produced. For a particular geographical area it is the sum of income and intermediate and raw materials purchases from outside of the area. Since the sale of the latter does not directly generate income for area residents it overstates the economic benefits to those residents.

Table 8- Direct, Indirect, and Induced Impacts on Statewide Output of Construction Activity within the Sampled RDA Project Areas: IMPLAN Table for Projects Completed during the 2001-02 Fiscal Year⁷

Industry	Direct	Indirect	Induced	Total
Agriculture	\$0	\$3,176,294	\$3,848,107	\$7,024,401
Mining	\$0	\$895,224	\$1,326,492	\$2,221,716
Construction	\$988,391,104	\$3,555,916	\$7,952,048	\$999,899,068
Manufacturing	\$0	\$76,067,288	\$37,917,620	\$113,984,908
TCPU*	\$0	\$35,010,336	\$25,659,794	\$60,670,130
Trade	\$0	\$98,666,472	\$82,069,720	\$180,736,192
FIRE**	\$0	\$32,560,820	\$86,132,416	\$118,693,236
Services	\$0	\$149,890,912	\$112,824,520	\$262,715,432
Government	\$0	\$4,433,930	\$8,652,610	\$13,086,540
Other	\$0	\$0	\$924,383	\$924,383
Totals	\$988,391,104	\$404,257,192	\$367,307,710	\$1,759,956,006

* Transportation, Communication and Public Utilities

** Finance, Insurance, and Real Estate

4.1.2 Income⁸

Total statewide income resulting from the construction activities associated with the RDA's in the sample was \$891,275,572 for the 2001-02 fiscal year. The entries in Table 9 break down income effects by sector, separated by direct, indirect, and induced impacts. Of the total change in statewide income, \$422,321,075, or 47.38% of the total was in the form of gross earnings for business owners and employees in the construction sector. Other incomes receiving a significant increase include those in services (\$160,758,592 or 18.04% of the total); wholesale and retail trade (\$135,447,488 or 15.20% of the total); finance, insurance and real estate (\$83,173,074 or 9.33% of the total); and manufacturing (\$43,632,459 or 4.90% of the total)

⁷ Differences in the direct construction spending figures (from Table 2 to 8) are due to internal IMPLAN model rounding.

⁸ Income is the sum of labor income (employee compensation and proprietor income), other property type income, and indirect taxes.

Table 9- Direct, Indirect, and Induced Impacts on Statewide Income of Construction Activity within the Sampled RDA Project Areas: IMPLAN Table for Projects Completed during the 2001-02 Fiscal Year

Industry	Direct	Indirect	Induced	Total
Agriculture	\$0	\$2,080,426	\$1,848,440	\$3,928,866
Mining	\$0	\$599,572	\$889,990	\$1,489,562
Construction	\$416,468,928	\$2,114,955	\$3,737,192	\$422,321,075
Manufacturing	\$0	\$30,147,744	\$13,484,715	\$43,632,459
TCPU*	\$0	\$18,219,694	\$14,663,123	\$32,882,817
Trade	\$0	\$74,225,848	\$61,221,640	\$135,447,488
FIRE**	\$0	\$21,776,610	\$61,396,464	\$83,173,074
Services	\$0	\$88,618,816	\$72,139,776	\$160,758,592
Government	\$0	\$2,655,890	\$4,061,366	\$6,717,256
Other	\$0	\$0	\$924,383	\$924,383
Totals	\$416,468,928	\$240,439,555	\$234,367,089	\$891,275,572

* Transportation, Communication and Public Utilities

** Finance, Insurance, and Real Estate

4.1.3 Employment

Total statewide employment resulting from the construction activities associated with the RDA's in the sample was 16,216 for the 2001-02 fiscal year. The entries in Table 10 separate employment effects by sector and by direct, indirect, and induced impacts. Of the total change in statewide employment, 8,125 jobs, or 50.10% of total jobs, were in the

Table 10- Direct, Indirect, and Induced Impacts on Statewide Employment of Construction Activity within the Sampled RDA Project Areas: IMPLAN Table for Projects completed During the 2001-02 Fiscal Year

Industry	Direct	Indirect	Induced	Total
Agriculture	0.0	78.2	64.7	142.9
Mining	0.0	3.4	4.8	8.2
Construction	8,004.6	42.4	78.1	8,125.1
Manufacturing	0.0	444.8	170.4	615.2
TCPU*	0.0	230.6	127.4	358.0
Trade	0.0	1,158.7	1,410.7	2,569.4
FIRE**	0.0	206.7	323.2	529.9
Services	0.0	1,889.7	1,810.8	3,700.5
Government	0.0	39.5	50.3	89.8
Other	0.0	0.0	77.2	77.2
Totals	8,004.6	4,094.0	4,117.6	16,216.2

* Transportation, Communication and Public Utilities

** Finance, Insurance, and Real Estate

construction sector. Other sectors receiving a significant boost in employment include services (3,700 or 22.82% of the total) and wholesale and retail trade (2,569 or 15.84% of the total).

4.1.4 State and Local Taxes Generated⁹

Table 11 lists the state and local tax revenues for 2001-02 resulting from the additional economic activity generated by RDA-associated construction in that year. State and local taxes are listed by tax category. Those included in the indirect business tax (Indirect Bus. Tax) categories are also included as part of the income impacts included in the output (Table 8) and income (Table 9) tables. Total state and local tax receipts were increased by \$73,275,897 during 2001-02 due to the construction activity associated with the sampled RDA's. Sales tax receipts were \$25,669,814 higher accounting for 35.03% of the added revenues. Other categories of revenues with substantial increases included personal income taxes (\$16,581,715 or 22.63% of the total) and property taxes (\$15,736,995 or 21.48% of the total).

Table 11- Impacts on State and Local Taxes of Construction Activity within the Sampled RDA Project Areas: IMPLAN Table for Projects completed During the 2001-02 Fiscal Year

Tax Category	Total State and Local Taxes and Fees
Corporate Profits Tax	\$2,740,170
Dividends	\$29,705
Indirect Bus. Tax: Motor Vehicle License	\$343,918
Indirect Bus. Tax: Other Taxes	\$2,642,596
Indirect Bus. Tax: Property Tax	\$15,736,995
Indirect Bus. Tax: S/L Non-Taxes	\$2,536,991
Indirect Bus. Tax: Sales Tax	\$25,669,814
Indirect Bus. Tax: Severance Tax	\$17,449
Personal Tax: Estate and Gift Tax	\$0
Personal Tax: Income Tax	\$16,581,715
Personal Tax: Motor Vehicle License	\$774,532
Personal Tax: Non-Taxes (Fines- Fees)	\$4,369,894
Personal Tax: Other Tax (Fish/Hunt)	\$135,345
Personal Tax: Property Taxes	\$302,049
Social Ins Tax- Employee Contribution	\$276,039
Social Ins Tax- Employer Contribution	\$1,118,685
Total State/Local Government	\$73,275,897

⁹ While the IMPLAN tax report specifies state and local taxes as “non-educational” the method IMPLAN uses to generate the tax estimates implies that property taxes accruing to the state schools fund are included.

4.1.5 Income and Employment per Dollar of Agency Spending: Sample Results

4.1.5.1 Based on Life of Project Costs

The total output, income, employment, and state and local tax impacts per million dollars in spending by the RDA's in the sample are included in Table 12 for both of the definitions of agency cost used here. For the reported life of project cost definition (\$123,852,117), agency construction activity increases state output by \$14.21 for each dollar of agency spending. State income is increased by \$7.20 for each dollar of spending, while construction activity generates 131 additional jobs per million dollars of agency spending. State and local tax receipts increase by \$0.59 for each dollar of agency spending, implying that 59.1% of the agency share of project cost is returned in the year construction is completed.

4.1.5.2 Based on Agency Cost from the 2001-02 Controller's Report

For the 2001-02 controller's Report definition (\$219,914,693), agency construction activity increases state output by \$8.00 for each dollar of agency spending. State income is increased by \$4.05 for each dollar of spending, while RDA-associated construction activity generates 74 additional jobs per million dollars of agency spending. State and local tax receipts increase by \$0.33 for each dollar of agency spending, implying that 33.3% of the agency share of project cost is returned in the year construction is completed.

Table 12- Statewide Output, Income, Employment, and State and Local Taxes per Million Dollars of RDA Spending: Sample Results

	Output	Income	Employment	State and Local Taxes
Total Impacts	\$1,759,956,006	\$891,275,572	16,216	\$73,275,897
Agency Cost (Life of Projects)	\$123,852,117	\$123,852,117	\$123,852,117	\$123,852,117
Impact per \$1,000,000 of Agency Cost	\$14,210,141	\$7,196,289	131	\$591,640
Agency Cost (Controller's Report for 2001-02)	\$219,914,693	\$219,914,693	\$219,914,693	\$219,914,693
Impact per \$1,000,000 of Agency Cost	\$8,002,903	\$4,052,824	74	\$333,201

4.2 Estimated Total Impact of RDA Construction Activity on the State Economy

Table 13 contains the estimated statewide economic impacts of all RDA-associated construction activity within the state of California. Because of the discrepancy between reported life of project costs and agency cost contained in the 2001-02 Controller's Report, the methodology incorporated in this study yields a fairly wide range of estimated impacts. RDA-associated construction activity increased state output by between \$27.5 billion and \$48.8 billion in the 2001-02 fiscal year. State income was between \$13.9 billion and \$24.7 billion higher as a result of RDA-associated construction during that year, while an additional 253 thousand to 450 thousand jobs were created. That same construction activity resulted in significantly higher tax revenues for state and local governments, with an increase of between \$1.1 billion and \$2.0 billion for 2001-02.

Table 13- The Impact on State Output, Income, Employment, and State and Local Taxes of all RDA-Associated construction Activity for the 2001-02 fiscal Year within the State of California

	Output	Income	Employment	State and Local Taxes
Total Impacts	\$1,759,956,006	\$891,275,572	16,216	\$73,275,897
Agency Cost (Life of Projects): Sample	\$123,852,117	\$123,852,117	\$123,852,117	\$123,852,117
Total Agency Cost: All RDA's (2001-02 Controller's Report)	\$3,433,547,762	\$3,433,547,762	\$3,433,547,762	\$3,433,547,762
Ratio of Total to Sample	27.72	27.72	27.72	27.72
Statewide Impact	\$48,791,196,546	\$24,708,800,369	449,561	\$2,031,425,036
Agency Cost (Controller's Report for 2001-02): Sample	\$219,914,693	\$219,914,693	\$219,914,693	\$219,914,693
Ratio of Total to Sample	15.61	15.61	15.61	15.61
Statewide Impact	\$27,478,350,460	\$13,915,565,185	253,185	\$1,144,063,131

4.3 Statewide Impacts per Dollar of RDA Spending

Because of the linear expansion of the sample to the state total, the statewide economic impacts per dollar of spending by all RDA's within the state of California are identical to those included in Table 12 for the surveyed RDA's.

5 Conclusions

5.1 Total Impacts

The combination of construction in RDA project areas and RDA participation in construction outside project areas has a significant impact on the economy of California. The increase in output resulting from this construction activity is between 1.2% and 2.2%

of 2001 state output (from the 2004 version of IMPLAN). Income is increased by between 1.0% and 1.8% and RDA-associated construction activity is responsible for between 1.3% and 2.2% of total state employment.

The impact on California's construction sector is even more pronounced. Output in the state's construction sector is increased by between 12.6% and 22.5% of 2001 state levels. The increase in income to owners and employees within the construction industry ranges from 11.7% and 20.8%. RDA-associated construction activity is responsible for between 10.5% and 18.7% of employment in the construction sector.¹⁰

5.2 Impacts Per Dollar of RDA Spending

Impacts per dollar of RDA spending are an indicator of the effectiveness of agency programs and policies, but not an indicator of the balance between agency costs and benefits. There are many benefits of agency programs not included in the totals in Table 12.¹¹ Because the benefit totals are not fully inclusive, the output, income, and employment impacts per dollar of agency spending represent the lower bound of benefits generated by a dollar of RDA spending. Yet, the economic impacts per dollar of agency spending comfortably exceed the value of one ordinarily associated with a balance of costs and benefits. The estimated increase in state output, per dollar of agency spending, ranges from \$8.00 to \$14.21, while the average dollar of RDA spending raises state income by between \$4.05 and \$7.20. Estimates of employment, per million dollars of agency spending, range from 74 to 131, for an average agency cost of \$7,638 to \$13,561 per job created.

5.3 Implications of Changes in State RDA Funding Levels

The economic impact estimates presented in the preceding sections of this report indicate that a reduction in state funding for RDA's will have a significant adverse impact on the California economy, particularly on the construction industry. In addition, each dollar reduction in RDA funding will reduce the state budget deficit by considerably less than a dollar. For each dollar reduction in RDA expenditures state and local tax revenues are reduced by between \$0.33 and \$0.59. Therefore, a dollar in reduced RDA funding levels will reduce the deficits facing state and local government units by between \$0.41 and \$0.67, not the full dollar. The impact on total assessed value and the resulting changes in property tax revenues, due to a reduction in RDA funding, also will have an impact on future state and local government revenues. This additional revenue impact is not included in the analysis since the tax impacts estimated in the IMPLAN model are for the project construction phase only.

¹⁰ Since prevailing wages on RDA funded projects may exceed the state average for all construction projects, the IMPLAN-generated employment estimates for this portion of the construction sector may be unrealistically high.

¹¹ These excluded benefits are discussed in Section 2.6.

6 References

Minnesota IMPLAN Group (MIG) 2000, *IMPLAN Professional Software*, 2000

Minnesota IMPLAN Group (MIG) 2004, *IMPLAN Professional Software*, 2004

State of California, *Community Redevelopment Agencies Annual Report (CRAAR)*,
Fiscal 2001-02

State of California, Department of Finance, *E-1 City/County Population Estimates, with
Annual Percent Change, January 1, 2002 and 2003*. Sacramento, California, May 2003

7 Appendix A: Survey Cover Letter and Spreadsheet

January 5, 2004

Modified Data Request

To Whom It May Concern:

The California Redevelopment Association (CRA) has contracted with the Center for Economic Development at California State University, Chico (CED) to do a study of the economic impact of construction activity within the state's Redevelopment Areas (RDA). This study is part of a broader effort by CED to determine ways to improve data collection and analysis using the same software used here. As part of this pilot project, you will be helping us to determine if the data we need to make employment and other economic impact estimates is available from RDAs with a minimum amount of effort, and, if that data is useful in its current form.

The RDA for which you have management responsibility has been selected as part of the study sample for our pilot project. The Controllers report will provide some of the data we will use for the study. We have determined that additional data is necessary and we believe that you collect the required information as part of your project management procedures. This data should be consistent with and support data collected by the State Controller and the Housing and Community Development Department.

We are interested in obtaining data on the total dollar value of residential, commercial, industrial, infrastructure, and other construction completed in *all* of your project areas during the 2001-2002 fiscal year. Project construction may have taken two or more years to complete before it was certified for habitation or in some other way officially approved for occupation or use (park or road for example) in 2001-2002.

Please report the requested data on the attached Excel spreadsheet. Please see the last page of this letter for definitions of terms. There are three tabs at the bottom of the Excel file: the first worksheet is for reporting project construction and agency cost data; the second is for reporting data on RTA project area property sales; and the third is an opinion survey to determine your view concerning the utility of economic impact analysis of RDA construction activities.

1. Please provide the total dollar value of construction projects completed during the 2001-02 fiscal year separated by commercial, industrial, residential, and public infrastructure (streets, street improvements, parks, public buildings, etc). If you are unable to separate construction into commercial and industrial, enter the figure as commercial/industrial total in the worksheet row designated for that purpose. In

addition, for each category of building construction, it would be useful to have the dollar value of completed construction categorized according to whether it is new construction or structure rehabilitation. For the private construction projects we are interested only in those projects completed during the 2001-02 fiscal year.

2. For each project completed during the 2001-02 fiscal year please include the direct agency cost including administration and allocated overhead. The cost items should be categorized in a manner similar to how they are reported to the Controller's office (include only those items reported as expenditures in the Controller's report). Include all costs incurred from beginning to end of the project, not just those charged to the 2001-02 agency budget and reported for that year to the Controller. If there is no agency cost, indicate that, but still include the project construction cost in 1., above, since we are interested in the dollar value of all construction completed within the RDA project areas during fiscal 2001-02.

3. Where agency involvement results in the construction of low and moderate income housing (or any other projects) outside of the RDA project areas, please provide the same information (as requested for construction inside the project areas) specified under 1. and 2., above.

4. Since public infrastructure investment doesn't directly affect the tax increment, we need the dollar amount for completed projects as a separate figure from the total construction costs reported in 1 above. This information is requested under 1, above, however this question specifies the level of detail we would like for this category of construction activity. If the information is available, please identify the amount of the total construction costs spent each on new streets and roads, street improvements, new public buildings, renovated public buildings, and parks and park improvements. Where a particular project involves construction fitting into more than one category, please allocate them as accurately as possible to the specific categories listed on the worksheet. Any additional completed public projects can be aggregated into the "other" category. Again, as in the case of private projects, it is important that the listing include only projects completed during the 2001-02 fiscal year.

The attached Excel file contains a worksheet for convenient entry of the data requested for questions 1-4 above. As noted earlier, a second worksheet collects information about how (and if) economic impact estimates are currently made and their value for evaluating the performance of RDA's.

If the above information is available in sufficient detail, the results of this study will provide a reliable estimate of the impact of RDA-induced construction activity on income, employment, and tax revenues within the local and state economies. Your cooperation with the data-gathering portion of this study is invaluable and much appreciated. At your request, we will provide for you an estimate of the economic impact of your RDA's activities. Otherwise individual agency results will be kept confidential by CRA and CED. (Agencies included in the sample will be identified by name, while the data reported to us will be presented in aggregated form only) Any questions regarding this survey should be directed to Dr. David E. Gallo by email at degallo@csuchico.edu or by phone at (530) 343-0461.

Sincerely,
Dr. David E. Gallo
Principal Researcher
Center for Economic Development

City RDA's Included in the Sample

Antioch	Indio	Moorpark	Sacramento
Fontana	Los Angeles	Oxnard	San Diego
Healdsburg	Milpitas	Redding	Santa Ana

Definition of Terms

1. Commercial, industrial, and residential follow the standard definitions used in fulfilling reporting requirements for the Controller and HCD.
2. Public infrastructure includes streets, street improvements, parks, public buildings, ports and airports, telecommunications, rapid transit, etc., not owned by private individuals or corporations, and not subject to property taxation.
3. The dollar value of completed construction is the total increase in assessed value for the property improvements entering the tax increment during 2001-02.
4. The distinction between new construction and structure rehabilitation should be reported in a manner consistent with the Controller's and HCD reporting procedures.
5. Total agency cost for a project includes all items categorized as expenditures in the Annual Controller's Report. The reported amounts should include all expenses incurred for a project from initial planning through completion. An appropriate proportion of administrative overhead should also be allocated to the project for each year of project life, or up until the year (2001-02) the resulting increase in assessed value is added to the tax increment.
6. The allocation of project construction spending and agency cost between the residential categories of low- and moderate-income housing and unrestricted housing should be based on the standard definitions for these housing types.
7. New streets and roads are defined as those undergoing initial construction or major renovation. Major renovation involves, at a minimum, removal of existing pavement, the addition of a median (landscaped and/or with new streetlights), or new curbs and gutters.
8. Street improvements involve redoing the existing pavement with the addition of a topcoat of asphalt or sealant, or, partial replacement or repair of existing gutters, median strips, and sidewalks.

Name and phone number of person providing data:

Name of Redevelopment Agency:

Project Categories	Total Construction Spending: Fiscal 2001-02	Total Agency Cost (Life of Project) Including Administrative Overhead
New Construction within Project Areas		
Industrial Commercial Total Industrial/Commercial Residential: Low- and Moderate-Income Residential: Unrestricted Public Infrastructure New Streets New Public Buildings Parks and Park Improvements Other		
Rehabilitation Construction Spending within Project Areas		
Industrial Commercial Total Industrial/Commercial Residential: Low- and Moderate-Income Residential: Unrestricted Public Infrastructure Street Improvements Public Buildings Other		
Agency-Financed New Construction Outside of the Project Areas		
Residential: Low- and Moderate-Income Public Infrastructure New Streets New Public Buildings		

Parks and Park Improvements Other
Agency-Financed Rehabilitation Construction Outside of the Project Areas
Residential: Low- and Moderate-Income Public Infrastructure Street Improvements Public Buildings Other