The Downside of Urban Growth by Undemocratic Means

Michael Peter Smith, University of California-Davis

Cities cannot flourish without regular investments to create and repair "infrastructure" – everything from roads and sewer systems to services such as libraries, police forces, and counselors in local high schools. Citizens and businesses alike depend on such shared facilities and services. In the middle of the twentieth century, the U.S. national government and many states helped cities develop infrastructure. Grants were often increased during economic downturns, when localities faced fiscal stress yet the cost of public borrowing was low.

But since the 1970s, American cities have been largely on their own to build and sustain infrastructure – in an era where opponents of taxes agitate to cut back public revenues. Desperate to fund vital projects, cities have turned to special "redevelopment" agencies run undemocratically by small boards of business elites and public managers. These agencies arrange private financial investments to build the facilities needed by new private business ventures – like a shopping center or a big warehouse facility.

California as a Textbook Case

Nowhere has the craze for development agencies been more prevalent than in California. That state was once a leader in using taxes to construct highways, ports, schools, and universities well ahead of population growth. But "Proposition 13" tax revolts of the 1970s hobbled the ability of local and state governments to raise taxes without super-majority votes. To work around the limits, the state authorized "urban redevelopment agencies" and "special districts." Managers of such entities were empowered to condemn existing private properties and sell bonds to pay for clearing the area and constructing roads and utilities for new businesses. A device called "tax increment financing" was authorized to pay back the bondholders. That is, agencies were given the legal right to automatically divert part of future tax collections attributed to economic growth enabled by their projects.

Perils through Boom and Bust

Supporters of tax-advantaged redevelopment claim a "win-win" for everyone. Taxpayers do not have to pay for certain new kinds of infrastructure, they say, and new businesses will bring more jobs and higher tax collections. Public-private agencies are celebrated as expressions of "local control." Supporters do not mention that voters have little say once new agencies are set up. Another downside left unsaid is what happens when portions of future taxes are diverted to pay back bondholders – reducing revenues for vital services such as schools, libraries, neighborhood parks, and police departments.

Experiences in three California cities illustrate the perils – which can happen in good economic times, and become downright catastrophic when the economy goes bust:

- **Emeryville** is a small city nestled between Oakland and Berkeley. Faced with the decline of manufacturing starting in the 1960s, city leaders used redevelopment agencies to build infrastructure for big box stores, office buildings, and shopping centers. At first, Emeryville attracted retail ventures that might otherwise have gone to neighboring areas – creating problems in the region as a whole, but winning locally. Even when commerce boomed, too little in was invested in community needs apart from business facilities; and the city had to keep launching new projects to pay off old bills. Now that retail shoppers are spending less, Emeryville is in trouble without room for ever more growth.

- **Oxnard** is a large suburban city south of Los Angeles where officials got in over their heads using tax-diversion bonds to pay for business infrastructure. Not only were neighborhood streets left to crumble, things got to the point that paying off earlier bonds required mortgaging or leasing public buildings. To cover past borrowing, managers diverted state allocations previously used for general needs and relied on ever-more-creative financial instruments. Now such maneuvers are exhausted – just as business taxes and state allocations have plummeted.

- **Vallejo** is a medium-sized city north of San Francisco experiencing the worst effects of over-dependence on redevelopment financing. As in other places, tax revenues and state allocations have plummeted. But Vallejo has gone beyond the typical trimming of budgets and layoffs of public workers to file for Chapter 9 municipal bankruptcy. Before the current downturn, Vallejo was in hock to bondholders. Afraid to default on bonded debt, city officials are using bankruptcy to escape longstanding pension obligations to public employees. Making a mockery of the idea of local control, Vallejo is hurting its workers and citizens to keep paying off the national and international financiers who own its bonds.

A Better Way Forward

The state of California has recently rescinded grants for local redevelopment projects and revoked authority to use tax increment financing. Developers are outraged, and want to restore the undemocratic mechanisms that encouraged cities to compete to build infrastructure primarily for business.

But America can find better ways to pay for vital infrastructure. In a promising beginning, the Obama administration has created “Build America Bonds” that allow states and localities to sell debt at a higher interest rate than traditional public bonds. With more than $109 billion sold so far, these nationally subsidized bonds show the value of spreading infrastructure costs across levels of government. Working together, U.S. citizens can take better control over shaping the facilities all of us need for the future.

Read more in L.Owen Kirkpatrick and Michael Peter Smith, “The Infrastructural Limits to Growth: Rethinking the Urban Growth Machine in Times of Fiscal Crisis,” *International Journal of Urban and Regional Research* 35, no. 3 (2011): 477-503.