California’s political leaders are currently struggling with the monumental challenge of finding ways to eliminate the state’s $25 billion budget deficit. Somewhat surprisingly, one of the most controversial deficit reduction proposals offered by newly-installed Governor Jerry Brown involves elimination of California’s 425 redevelopment agencies. Estimated savings: $3 billion per year.

Such a reduction in state expenditures would put a significant dent in California’s so-called “structural deficit,” without the need to raise taxes or cut essential government services for health care, welfare, educational or environmental purposes. But the state’s local redevelopment agencies are screaming bloody murder, responding to Governor Brown’s proposal with threats of litigation challenges and expedited efforts to “lock up” redevelopment funds by committing them to specific projects before the Governor can yank the funding.

Here, in a nutshell, is how California redevelopment projects and funding work: the goal is to revitalize urban areas that have become blighted or otherwise run-down. The fiscal means of doing so is known as tax increment financing. When an area is deemed blighted, its property tax base is frozen. Once it is redeveloped and property values (hopefully) rise as a result, local governments and schools continue to receive only the level of property tax revenues that they did before the area was declared blighted and redeveloped. The excess property tax revenues go to the local redevelopment agencies, providing funding for future projects.

While that provides a lot of money to redevelopment agencies throughout California, it simultaneously deprives state and local governments of substantial tax revenues they would otherwise receive. And the adverse financial impact is especially felt at the state level, since California law requires the state treasury to reimburse local schools for taxes that local governments divert to redevelopment agencies.

In a time of unprecedented fiscal crisis, one would think that a serious debate over the utility and value of local redevelopment projects is worth having. But California’s redevelopment community and many of its local government political allies apparently disagree.

To be sure, the redevelopment process has been instrumental in the revitalization of many distressed urban areas around California, and the nation as a whole. But one can argue that at least some of those projects could and would have proceeded without the monetary incentives provided by tax increment financing.

Moreover, look closely and some serious concerns emerge regarding certain California redevelopment practices. A few years ago, for example, Kern County, California redevelopment officials infamously declared a large expanse of the Mojave Desert blighted, in order to make redevelopment dollars available to finance a proposed Hyundai test track and related industrial facilities. (That effort failed as a result of a litigation challenge by neighborhood groups and California’s Attorney General.) And recently, the New York Times reported that several Bay Area communities have for some time been diverting redevelopment funds to pay for general municipal law enforcement services, city council members’ salaries, etc.

Perhaps more than anything else, public skepticism over redevelopment agencies and policies has been fueled by the continuing political fallout from the U.S. Supreme Court’s controversial 2005 decision in *Kelo v. City of New London, Connecticut*. In *Kelo*, redevelopment proponents narrowly won a ruling from the Court authorizing redevelopment agencies’ use of the their eminent domain power to replace non-blighted privately-owned residential properties with other privately-owned and operated projects deemed likely to generate higher property tax and related revenues. But the political outcry following the *Kelo* decision resulted in a large majority of states (including California) changing their laws to limit or ban such “economic development takings.” The redevelopment community in California and elsewhere stoutly resisted these reforms, and continues to find itself politically isolated as a result.

If California Governor Brown ultimately succeeds in his efforts to abolish the state’s redevelopment industry, it will be due in significant part to the self-inflicted wounds administered by redevelopment agencies. If they are to have any chance of survival, the state’s redevelopment leaders will have to get their heads out of the sand and submit to at least a reasoned discussion over the relative value of redevelopment agencies in a fiscally-challenged era.