

CASE STUDY: CITY OF ALHAMBRA

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Alhambra—A model for redevelopment or abuser of the system?

by Eric Sunada

Governor Brown's proposal to eliminate redevelopment agencies is one element in his plan to help rescue California from its financial woes. Eliminating them will save the state more than \$2 billion a year by eliminating tax increment revenue that is deferred to such agencies.

In response, cities have unleashed a blitz to defeat it at all costs. The reason is that without the power of tax increment financing and property management (including eminent domain) granted to redevelopment agencies, many cities will lose the ability to implement fixes to their social and economic problems. These remedies are at the core of why redevelopment agencies were created in the first place: to build affordable housing, stem blight, generate good paying jobs, and improve the quality of life of its residents. No one can argue that all cities should strive for such goals and that anything which threatens it should be fought tooth and nail.

It's even more difficult to take given we're in the worst economy since the Great Depression. Arguably it's during these times that the government should be helping more – not less by taking away valuable funding. But unlike the feds which can provide stimulus funding, California's financial state is so dire that there's not much the Governor can do. Cuts need to be made given the requirement for a balanced budget, and any area for which there's a hint of justification for removal is a sure target.

So the question is how could agencies whose core purpose is to curb blight and help those in need possibly be a target? Critics of redevelopment agencies cite misuse of funds. Some agencies have been found to squander millions without any tangible developments. Some are seen to use it as a vehicle for subsidizing commercial development in non-blighted areas. The state's non-partisan Legislative Analyst

Office has found no conclusive evidence that redevelopment agencies generate any more jobs and revenues that would not have been generated anyway.

Whether or not the Governor is successful in his attempts to eliminate redevelopment agencies, we as a city need to take a look within. We need to ask ourselves if we've contributed to the vulnerability of the redevelopment agency vehicle. Have we done the best job at adhering to its core principles? Have we lost sight of its true purpose? Development is a must, but have we done it in a responsible and equitable manner to all stakeholders? If not, we need to take the time to correct this.

I argue that the appropriate response is to provide areas where we promise to improve. Admit our shortcomings and present a plan that is truly sustainable and consistent with the core goals. If all agencies did this, the state would find the cost of the redevelopment machine to be significantly reduced. The key is to think globally and act locally.

Alhambra: a model for redevelopment or abuser of the system?

Alhambra has been heralded by some in the business community as an example of redevelopment done right. Recent articles in the Pasadena Star News/San Gabriel Tribune have highlighted the creation of jobs through the city's redevelopment efforts. The Los Angeles County Economic Development Corporation recently named Alhambra the "most business friendly city in all of Los Angeles County."

But what is peculiar about these accolades is they all originate from businesses, developers, and the Alhambra Redevelopment Agency itself. And what's conspicuously missing is input from the residents, workers, and other government agencies. A closer look at the Alhambra

Redevelopment Agency (ARA) provides some perspective on why this may be the case.

No one can argue the true goals of California's redevelopment agency: to remedy blight, build affordable housing, generate good paying jobs, and improve the quality of life of its residents. Unfortunately, we've seemed to have lost sight of these goals and have fallen into the same funk as that of many other redevelopment agencies in the state.

The majority of the properties on which the ARA acts are not truly blighted. They are not boarded up flop-houses or hangouts for the homeless. In fact, the federal HUD officer assigned to this area does not consider any part of Alhambra to be blighted. So how does the city qualify a site as blighted? The city gains this distinction by hiring a consultant to render an opinion on whether an area is structurally or economically blighted. In March 2010, the city contracted with GRC Associates, a firm who provides such services. The conclusion of their study was that sufficient evidence of blight exists.

While some form of quantitative analysis is involved, there are subjective criteria as well. The obvious question is one of a possible conflict of interest: the city paid a consultant to render an opinion. But the opinion which was favorable to the city was also in the best interest to the consultant's business base.

But what's more disturbing is the tone of the debrief given by John Oshino, President of GRC Associates. He cited several threats to the ARA's ability to direct funding to commercial development: the county and state's possible challenges to their claims of blight; additional obligations by the state for housing; and a possible increase in the requirement for set-aside funding to affordable housing from 20% to 30%. What is disturbing about Mr. Oshino's remarks is that he labeled as threats some of the core values of the redevelopment agency's true charter.

Affordable housing is so much a part of the redevelopment agency charter that the state mandates 20% of tax increment funding be dedicated to it. But the city has failed much of those in need of affordable housing by running the relief program with the precision

of an air drop from 50,000 feet. And the parachutes are all landing in Leisure World¹.

The possibility of a conflict of interest in hiring a “blight” consultant is no worse than the one we have allowed within our own city. The ARA pays a significant amount of city employee salaries. In fact, the Director of Development Services is paid entirely out of the ARA. Yet it is this same person who oversees the Planning Department – the arm of city government responsible for safeguarding the city’s design and building standards. Residents rely on such standards to maintain their environment and quality of life.

Our parochial mentality has no doubt contributed to Governor Brown’s proposal to remove redevelopment agencies. We use redevelopment funds to subsidize commercial development which, in turn, provides tax increment revenues to further feed the ARA machine. The development projects are not necessarily fixing a blight problem, and revenues should be better managed and used elsewhere (e.g., the crippled Alhambra Adult Education Program).

We need to take a step back and revisit our true goals and vision for the ARA. It’s important for us not to follow the actions of other cities by prematurely committing funds to redevelopment projects now, thereby preventing the state for taking it back if the Governor’s budget proposal is adopted. Doing this is arguably a disaster in the case of Alhambra. It would commit funds to projects that have not yet had adequate public input. And it would likely not be equitable to all stakeholders, namely its residents.

The problem isn’t too much development, it’s too little too late.

The Alhambra Redevelopment Agency (ARA) has grown to be the envy of other local, cash-strapped governments. Awards and accolades abound from chambers and the pro-business lobby. Monterey Park has even hired an ex-ARA member (who has no prior municipal staff experience) as their new City Manager presumably in the hopes that he can work the system for them too.

Indeed over the past two decades, the ARA has grown into a mini-empire for Alhambra’s local government. New retail centers, storefronts, mixed-use residential, movie theaters, a supersized health club, even a fortified complex called the Alhambra and the Shops to go along with it are touted as being the fruits of the agency. Along the way

the resulting tax increment revenues went to further feed the ARA which were then put towards the purchase of more property, cash incentives to lure more developers, and salaries for ARA staff who also happen to be city employees.

For example, the Alhambra City Manager is compensated \$69,500 a year from the ARA since he also serves as its Executive Director. This is a significant portion of his total compensation of \$278,000. In terms of financial incentives to aid businesses, the ARA provided \$425,000 in assistance to the owners of 38^o Bar and Grill. And it plans \$552,000 in assistance to Babies ‘R Us next year. The list goes on.

The point we need to consider is whether Alhambra contributed to the criticisms of redevelopment agencies and the recent actions taken by Governor Brown to abolish them. Given that the main charters of such agencies are to cure blight and provide affordable housing, I would have to say yes we did. Taking the above examples, 38^o Bar and Grill was formerly occupied by the newly renovated California Brewing Company and Babies ‘R Us is part of the existing Freemont Plaza, both of which are far from being blighted. And the transferring of significant amounts of city staff salaries to the ARA, while keeping our city in the black while others are struggling with deficits, comes at the expense of taking tax revenues from other regional and state programs. These parochial actions, when taken together across many redevelopment agencies, have no doubt contributed to the state’s financial crisis.

Even from the isolationist viewpoint, the tangible fruits of the ARA’s efforts are questionable. Some residents are thrilled with the availability of the new shopping and restaurant options—options which are compounded by the frequent turnover of businesses gone kaput. Others who are less thrilled cite the lack of planning, quality of life impacts, and lack of affordable housing. And there’s the classic argument about whether such development would have happened anyway without paying out so much incentives to developers. Case in point is when Alhambra offered Starbucks \$136,000 in addition to reduced rent to open up one of its ubiquitous coffee houses. This at a time when left to natural market forces may have resulted in two Starbucks within throwing distance.

The other criticism cited by non-partisan studies² is that redevelopment agencies only

shift economic activity and do not significantly add to overall revenue and jobs. The studies focus on the shift between neighboring regions or cities. In Alhambra’s case, it is even worse: the lack of strategic planning has resulted in high turnover within the city itself.

We continue to throw good money after bad. The ARA has concentrated on a piecemeal, tactical plan that is often based on the ideas of a close circle of individuals: staff, developers they team with, and their architects. They often strive for something that has worked elsewhere rather than based on our uniqueness, whether it’s a certain set of national chain eateries and stores, a thriving nightclub scene, or high-end high-density condos. Without the consensus of the residents and customers, it borders on dogma. Specific problems that have resulted are a lack of convenient parking and meaningful ambiance within redevelopment zones. Sole proprietorships are encouraged to open one year, only to be decimated by the big-box store down the street in the next. Such problems are indicative of a lack of overall vision. Public hearings are often reduced to minutia (signage, bathroom size, number of tables, etc.) which further removes any hopes of relating it to the big picture. As businesses go under, the ARA continues to throw money at them in an effort to bring in more of the same. Meanwhile, many businesses outside of the designated redevelopment zones such as those on Valley Blvd. continue to thrive even without cash incentives to business owners.

The core of the problem is not too much development. It’s that there’s been too little

Development is more than throwing money at something, even if it is coming from other sources (read: it is NOT ok to build a Gateway Arch just because you have grant money to do it). It’s about urban renewal done in a way that considers inputs from all stakeholders. It’s about developing for the long term in a way that does not preclude the sustainability of each business type. By necessity, plans born from such efforts will be strategic in nature. It will also give city planners the much needed, consistent guidance they seek so they may do their jobs. And development is not antipodal to preserving the heritage of Alhambra. Buildings, houses, infrastructure – they all wear out over time. Development and renewal are necessary, but they can be done in a way that preserves our rich history.

True strategic development of this type invests in the residents, customers, and developers alike through consensus building. What we have done thus far is to focus on the short term by offering cash incentives to specific businesses. The former offers a better shot at sustainability and harmony for all. It will never be perfect, but at least it promises an infrastructure that is more likely to draw businesses without the monetary begging. And the developments will be naturally reflective of the community. The uniquely diverse demographics in Alhambra are something we should be proud of. This uniqueness can also extend to our business mix and is one of our best bets of a competitive advantage.

The lessons learned from Alhambra can help shape a state plan to save redevelopment agencies

Governor Brown's proposal to eliminate redevelopment agencies is especially pertinent to Alhambra not only because of its potential impact, but also because we are partially responsible for the proposal itself. What we've done with redevelopment funding is not consistent with its mission. And we've alienated a good portion of our residents in the process. Hundreds of millions of dollars were spent since the ARA has been active. During this time, the ARA has largely avoided the type of public oversight associated with such amounts simply because state law does not call for it.

In the coming months, we will continue to hear cries from our local councilpersons and city staff about the injustice of the state taking away our ARA funding. They will argue the need for local control and balk at this state raid. But take note: the "we" doing the talking will not be the city at-large, but rather those individuals who are being paid out of the ARA – city staff, developers, and the pro-business lobby.

Ironically, what the Governor's proposal offers is exactly what they are asking for: a return to local control. It will attempt, via constitutional amendment, to return the decisions for large developments back to the citizens by requiring a 55% majority vote.

But the California redevelopment vehicle is a valuable entity if used for its true mission. It provides a means to remedy blight while also providing much needed affordable housing which otherwise would not be built. Hopefully, a compromise will be reached. Based on the experiences in Alhambra, I would offer the following suggestions for a state-wide reformation:

1. Establish a regional board that adjudicates the deeming of blighted areas. A regional entity offers the best chance at a fair determination of blight. It can compare different cities and get help to those areas most in need.
2. Establish a regional board to aid cities with redevelopment administration and tax increment financing. Many cities suffer from a lack of knowledge on how to establish and use redevelopment agencies. Those who are keen often have large overheads due to salaries and other transfers from general fund expenditures. A regional board would level the playing field across cities and set strict limits on overhead expenses.
3. Increase the set-aside for affordable housing from 20% to 30%. The money saved by limiting the overhead costs and salaries charged to a city's redevelopment agency should be put toward affordable housing.
4. Go forward with proposing a constitutional amendment to allow local voters to approve tax increases and bonds for economic development purposes with a 55% majority. For those cities which are deemed unblighted, this would provide a means to spur development while still requiring consensus from the public.

Such reforms, for all practical purposes, would effectively end the ARA as we know it. But that may not be such a bad thing.

¹ Eric Sunada, "Need affordable housing? Better be a senior citizen." *Alhambra Source*, September 7, 2010.

(<http://www.alhambrasource.org/stories/need-affordablehousing-better-be-senior-citizen>)

² Legislative Analyst's Office, the California legislature's nonpartisan fiscal and policy advisor, *Should California End Redevelopment Agencies?*, February 2011.

(http://www.lao.ca.gov/analysis/2011/realignment/redevelopment_020911.aspx)