

CASE STUDY: CITY OF ALHAMBRA

San Gabriel Valley
Oversight Group

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Subsidizing retail development: misuse use of grant funding by the city of Alhambra

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Records have shown that for at least the past 15 years the city of Alhambra spends a grossly disproportionate amount of their federal block grant funding on subsidizing retail development. This practice is not consistent with the U.S. department of Housing and Urban Development's (HUD) requirements¹. That is, it is required that funding directly addresses at least one of these national objectives:

- *elimination of slums and blight and blighting influences;*
- *benefiting low to moderate income persons or neighborhoods; and/or*
- *meeting other urgent community needs imposing an immediate threat to safety and health.*

The practice of granting money, which is clearly intended for those in need, to businesses is questionable. And it is unethical when those businesses provide no direct benefit to the target community.

Federal grant money to local governments originated in the 1960s where the Model Cities program was started as a way to assist low-income neighborhoods. This money was directed for specific uses and locations. However, during the Nixon administration this program morphed into the Community Development Block Grant (CDBG) program, which placed the decision-making at the city level. The CDBG program removed the previous directives and used less rigorous performance metric standards. It established the national objectives (referenced above), and placed its trust in the cities to do right. The rhetoric of the day was that no one knew better than the cities themselves when it came to helping their working poor.

Consistent with the idea of the grant belonging to those in need, the amount of CDBG funding given to Alhambra each year

is based in part on the percent of the city population who are living in poverty and with lower incomes. Up until last year, the city received \$1.2 million to \$1.6 million of funding annually.

An analysis of Alhambra's use of CDBG funding² shows it straying considerably from the intent of the program. As an example, over the past four years from fiscal year 2009 through 2012, only 22% of the nearly \$4 million in funding was directly applied to community-based programs as shown in Figure 1 and detailed in Table 1. It is noteworthy that no programs were implemented that specifically targeted low-income or homeless populations. In contrast, funds given to retail businesses and developers plus overhead costs totaled 59%.

Nineteen percent of the funds, or \$734,845, was spent on code enforcement staff to patrol and cite residence owners for violations. Yet only \$314,568 of CDBG monies were dedicated for the Homeowner Rehabilitation program to assist low/moderate income homeowners to remedy such violations. Even worse, less than 50% of that money actually got to the homeowner. That is, the overhead exceeded the amount reaching the residents. In summary, Alhambra used \$734,845 of grant funding for its code enforcement staff whose job it is to cite residents for violations. But it used only \$154,829 to help residents to bring their homes up to code. This appears contradictory to the intent of the CDBG program.

During a meeting in 2010 with Assistant City Manager, Jessica Keating, the question was posed as to how the city justifies the disproportionate use of grant funding to subsidize retail development when the national objectives clearly intend for the funding to assist the low-income community. The answer was that such programs benefit everyone by their "trickle-down" effect, and

they also create much-needed jobs. She further stated that establishments that are given grant funding are subject to recruitment requirements: they must advertise the jobs in the vicinity of the project sites. Also, one full-time equivalent job must be created for every \$35,000 of grant money given to a business.

Development is necessary for any neighborhood to thrive and to boost those in lower income groups. Fresh food markets, medical services, recreational and entertainment facilities, good jobs, and the transportation infrastructure to get to those jobs are necessary. Retail establishments provide needed goods and also desired goods to those with the income to patronize them.

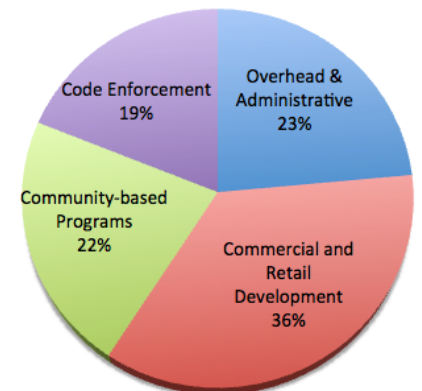


Figure 1
The cumulative apportionment of Community Development Block Grant money by the City of Alhambra from fiscal year 2009 through 2012.

But upon closer examination, the stated benefits are not effective. The "trickle-down" effect relies on successful businesses to generate revenue. While such practices may have worked during times of relatively large economic growth such as during the 1990s or during economic bubbles, the recession has resulted in many businesses going under, taking the people's grant money with them. The list of businesses subsidized with CDBG funding is long. A short list of examples is given in Table 2³. The argument that such funding is necessary to rehabilitate a space is suspect considering that the city will repeat the process at the same location. For example, the owners of 38^o Bar and Grill were subsidized with

Federal Community Block Grant Funding (CDBG)	Actuals			Category
	FY 2009-2010	FY 2010-2011	FY 2011-2012	
Section 108 (Retail Development)	\$390,181	\$411,406	\$415,668	Retail Development
Fremont Plaza	\$237,363	\$251,895	\$254,505	
Main Street	\$152,818	\$159,511	\$161,163	
CDBG Administration	\$226,723	\$282,250	\$244,728	Overhead
Code Enforcement	\$283,810	\$272,210	\$178,825	Operation and Maintenance
No. of Complaints received	1654	1203	831	
No. within low/mod income areas	496	207	128	
Assistance to Businesses and Developers (Economic Development Program)	\$0	\$5,300	\$26,469	Retail Development
Case Management (Seniors & Disabled)	\$143,380	\$159,965	\$122,670	Community
Youth Counseling	\$65,000	\$65,000	\$65,000	Community
Housing Rehabilitation Exterior Grant Program	\$196,268	\$56,370	\$61,929	
Applied to exterior improvements	\$80,355	\$23,225	\$51,249	Community
Overhead	\$115,914	\$33,145	\$10,680	Overhead
Main St. and Valley Blvd. Façade Improvement	NA	NA	\$132,393	Retail and Commercial Development
Fair Housing Services	\$25,000	\$25,000	\$25,000	Community
Programs for the homeless	\$0	HPRP via LAHSA	HPRP via LAHSA	Community
	\$1,330,362	\$1,277,501	\$1,272,682	

Table 1
The use of CDBG grant funding by the city of Alhambra from fiscal year 2009 through 2012.

\$450,000 of redevelopment funding at a location which was previously occupied by the now defunct, but then newly renovated California Brewing Company. Same for Cold Stone Creamery, Baja Fresh restaurant, and the list goes on.

The city's justification for subsidizing retail businesses using community grant funding because it creates jobs for low/moderate income groups was found to be a specious selling point. The only restriction placed on businesses was that 1 full-time equivalent position be created for every \$35,000 granted to them. So for a \$350,000 grant, a newly formed business need only have 10 full-time equivalent employees to be free and clear with the grant funding; jobs that would have been generated anyway once a retail establishment opens. Furthermore, the term "full-time equivalent" means that those 10 positions can be split among much more than 10 individuals. This permits businesses to split what would have been a full-time position into several part-time jobs with no benefits.

But the glaring hole in the city's rationale is the fact that the large majority of these jobs are associated with retail, a business sector notorious for unlivable wages. The only guarantee for low/moderate income groups

is that their income will remain low by working these jobs. Both written and oral inquiries to the city asking for details on their plan to promote livable wages, ensuring those jobs go to those in need, and how they plan to guard against an employer denying health benefits by only offering part-time positions were left unanswered⁴. When it comes to CDBG grant usage, the city's modus operandi over the past two decades favored the new business community without an equitable return to those in the target group. ***In summary, the amount of CDBG funding received from the federal government is based on the number of working poor, is intended for the working poor, but is largely used to subsidize retail development that create jobs with unlivable wages.***

Although new businesses and the chamber of commerce are in favor of the above policies, some existing businesses are also hurt. For those properties under city control, the type of business that opens there is often hand-selected. Yet the city's "bring in retail establishments at all costs" attitude inevitably introduces competition to those already existing and dilutes the grant funding. This promotes a high turnover rate

among businesses. This zero-sum game is made worse from a regional perspective because the city's concessions to the business lobby is intentionally enticing to those from other cities to the better deal. Given grant subsidies, no wage or benefit restrictions, or no affordable unit quotas for residential developers, businesses are drawn to Alhambra where the residents pay the price with low wage jobs and high housing costs. It is a race to the bottom.

Business Name	Funding Granted	Status of Business
Angelena's Restaurant	\$350,000	Closed
Charlie's Trio Restaurant	\$250,000	Operational
French Restaurant (Maria's)	\$350,000	Closed
Bayou Bar and Grill	\$350,000	Closed
Tony Roma's Restaurant	\$350,000	Closed
Sir Walter's Candy Store	\$70,000	Closed
Zocalo Restaurant	\$225,000	Closed
The Diner Restaurant	\$300,000	Operational

Table 2
Examples of retailers in Alhambra that have received grant subsidies.

Note that developers and businesses should strive to be successful, which is to ethically make a profit. This is the goal for everyone, and the city uses incentives to reach for it⁵. But using the people's grant money to subsidize them is misguided without a proper return to the community. Recommendations were given to the city on how to achieve this and included:

- a livable wage ordinance for those business that accept grant funding;
- prohibit the forced break-up of full-time jobs into part-time jobs in order to deny benefits for those businesses accepting grant funding;
- have the city's code enforcement staff work for the people instead of against them through inspections of businesses for compliance with the above provisions;
- for developer construction projects subsidized with grant funding, require a job-site training program to teach construction skills;
- use more of the grant funding for community programs, such as mental health services for at-risk youth, vocational programs, English as a second language programs, neighborhood centers, green energy projects which in

addition to directly benefiting the community, also create jobs.

This last point is probably the most applicable during these tough economic times where the city's desire to subsidize retail development is akin to rearranging the furniture on the Titanic and where the grant funding goes down with the ship. But by investing in the people, this is by definition money well spent because it helps with upward mobility, and it is more in-line with the intent of the CDBG program. These recommendations have been repeatedly made to city management as well as city government by the SGVOG dating back to 2009. Responses received have been obstinate without justification, discussion, or clarification of the city's policies⁶.

The trend continues

A more detailed look into the use of CDBG grant funding shows that the single largest line item for the past 15 years has been the use of the Section 108 loan provision. This allows the city to take a 20-year loan against grant funds. It is meant to facilitate larger projects that are beyond the reach of an annual budget. The city chose to utilize this vehicle in the mid-1990s to fund Fremont Plaza and the Main Street rehabilitation. This totaled over \$5 million before interest and will be paid off by 2016. For the fiscal year 2009 through 2012, these Section 108 loans represented 88% of the total retail development expenditures.

The proposed budget for fiscal year 2012-2013 is further tipped toward subsidizing businesses⁷. In addition to the Section 108 loans which consume 20% of the budget, a Special Economic Development program to help developers and business owners will consume \$1.4 million of the \$2.2 million budget, or 65%, as shown in Figure 2 and detailed in Table 3.

There does not appear to be any relief in the city's practices for the future. In 2010, the city approved the appropriation of \$4.9 million for a new Section 108 loan to subsidize the Ratkovich Group development company for the Shops at The Alhambra project. Approval for that loan by the federal government is still pending.

Perspective from the wider viewpoint

In 2011, Steve Lopez of the *Los Angeles Times* wrote a series of three articles describing how the city of Los Angeles was using its grant funding⁸. He questioned their practices of subsidizing retail establishments and the small return provided to the target

group of those in need. What Mr. Lopez described is directly analogous to what Alhambra has been doing for over a decade. At the national level, states such as Texas have been luring businesses away from California with tax breaks and lax environmental regulations. Globally, countries that deny collective bargaining rights for employees draw U.S. businesses overseas with their cheap labor.

Although Alhambra's use of grant funding is not unique among cities in the region, commonality does not make it any more ethical. By battling the bad economy through subsidies to businesses, cities such as Alhambra are treating the symptoms rather than the cause. Businesses cannot survive when the residents do not have the income to patronize them. The solution is not to provide residents with more places to spend their money, it is to get more spending money to those in need through education, training, good jobs, and an enriching environment. The city provides ample options for dining or lounging at local restaurants and bars and to purchase a flat screen television. But what you cannot find is an adult school program with vocational programs or where those learning English can enroll in ESL courses.

Even from a supply-side, free-market perspective, cities such as Alhambra are still an enigma. It directs grant funding to those businesses or favored sons it believes will be successful instead of letting market forces decide, effectively acting as a gatekeeper. At the same time, the city avoids investing in programs that directly help the working poor, instead relying on a trickle-down effect. This appears to be socialism for the rich and free-market enterprise for the poor. When it comes to CDBG grant money, the city of Alhambra has it backwards.

Federal Community Block Grant Funding (CDBG)	Budget	
Program	FY 2012-2013	Category
Section 108 (Retail Development)	\$432,934	Development
CDBG Administration	\$128,217	Overhead
Code Enforcement	\$55,023	Operation and Maintenance
Assistance to Businesses and Developers (Economic Development Program)	\$1,415,510	Development
Case Management (Seniors & Disabled)	\$114,913	Community
Youth Counseling	\$0	Community
Housing Rehabilitation Exterior Grant Program	\$10,000	Community
Fair Housing Services	\$25,000	Community
Programs for the homeless	\$0	Community
	\$2,181,597	

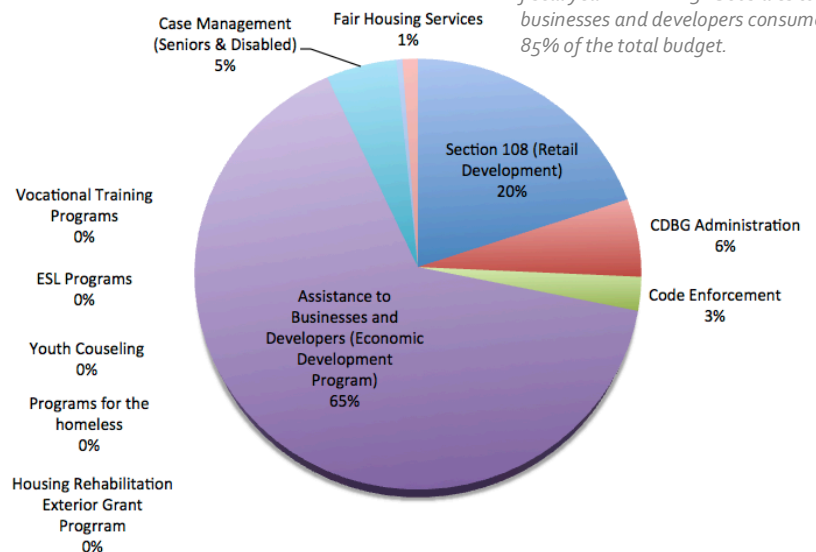
Table 3

The proposed Community Development Block Grant budget from the city of Alhambra for fiscal year 2012-2013.

The solution is not to provide residents with more places to spend their money, it is to get more spending money to those in need through education, training, good jobs, and an enriching environment.

Figure 2

The apportionment of the proposed Community Development Block Grant budget from the city of Alhambra for fiscal year 2012-2013. Subsidies to businesses and developers consume 85% of the total budget.



¹ The department of Housing and Urban Development administers the Community Development Block Grant program. HUD has specific restrictions for the use of CDBG funding, including that that at least 70% of CDBG expenditures will be for activities that are considered to benefit low/moderate income persons. These may be found at http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/library/deskguid

² City of Alhambra, *Consolidated Annual Performance Evaluation Report (FY 2009-2010)*.

City of Alhambra, *Consolidated Annual Performance Evaluation Report (FY 2010-2011)*.

City of Alhambra, *Consolidated Annual Performance Evaluation Report (FY 2011-2012)*.

³ City of Alhambra, *Consolidated Annual Performance and Evaluation Report (CAPER) FY 04/05*.

⁴ Written inquiries and city responses:
Correspondence dated September 22, 2010;
Correspondence dated September 20, 2011;
Correspondence dated May 1, 2012.
Oral inquiries may be viewed via the city of Alhambra's videotaped Alhambra Redevelopment Agency/Council Meetings dated October 11, 2010, October 5, 2010.

⁵ Alhambra was named the most business friendly city in Los Angeles County by the Los Angeles County Economic Development Corporation in November 2010. The LAEDC is a lobbying group in which Alhambra pays \$5,000 a year for membership.

⁶ Alhambra Redevelopment Agency/Council Meetings dated October 11, 2010, October 25, 2010 are typical.

⁷ City of Alhambra, *Action Plan Fiscal Year (FY) 2012/13*.

City of Alhambra, *Ammendment No. 3 to the City's Annual Action Plan for Fiscal Year 2012-2013*, Notice No. N2M12-120.

⁸ Steve Lopez, "Why does a thriving business need a \$1-million handout?," *Los Angeles Times*, October 8, 2011, sec. A.

Steve Lopez, "At L.A. City Hall, the handouts just keep coming," *Los Angeles Times*, October 23, 2011, sec. A.

Steve Lopez, "Hollywood businessman criticizes redevelopment grants," *Los Angeles Times*, October 26, 2011, sec. A