Send to printer Close window

Creating Economic Development at the Local Level

BY JULIO J. FUENTES AND JOSEPH MONTES

Julio J. Fuentes is city manager of the City of Alhambra and president of the California Redevelopment Association; he can be reached at jfuentes@cityofalhambra.org.

Joseph Montes is city attorney for Alhambra and a partner in the law firm of Burke, Williams & Sorensen, LLP; he can be reached at jmontes@bwslaw.com.

In the aftermath of the California Supreme Court's December 29, 2011, decision to uphold legislation that eliminated redevelopment agencies, the City of Alhambra wasted no time in re-establishing a means for conducting economic development activities to:

- Stimulate growth;
- Invigorate the city's business sector;
- Revitalize neighborhoods; and
- Generate new tax revenues.

Recognizing the importance of quickly reactivating redevelopment and related tools for this purpose, the City Council approved an economic development ordinance at its meeting on Feb. 27, 2012.

Laying the Legal Groundwork

The city established several findings and determinations to validate the legitimacy of the ordinance (which adds Chapter 3.34, Economic Development, to Alhambra's municipal code). As a charter-law city whose charter includes authorizing language, the Alhambra City Council is empowered to legislate over any municipal affair to the full extent permitted by the state Constitution. The city council determined economic growth and development to be effective aids in promoting the health and welfare of Alhambra's residents and thus a general benefit to them in multiple ways, including:

- Improved market-rate, affordable and transit-oriented housing options;
- Expanded retail and commercial options;
- More dining and entertainment options; and

- An improved tax base that helps the city provide municipal services to its residents.

Moreover, the city found the use of municipal funds and resources for implementing economic development activities permissible as a municipal affair because of the clear benefit to Alhambra's residents. Based on these findings and determinations, the city council approved the ordinance and authorized city staff to undertake approved economic development activities.

A Municipal Toolbox for Economic Development

The ordinance identifies a number of general categories of authorized activities to help fulfill the goal of economic growth and development. In short, these include (but are not limited to) the ability to:

- Purchase and dispose of property;
- Acquire property by eminent domain, when necessary;
- Provide for site preparation work (demolition, clearing and remediation);
- Rent, manage, operate and repair city-owned property for economic development;
- Rehabilitate, alter, construct or improve property;
- Pursue public and private financial assistance;
- Provide grants, loans, insurance payments, tax rebates or other assistance related to commercial and industrial activities, as well as market-rate and affordable multifamily housing; and
- Issue bonds or other forms of debt.

Resources for Funding

The ordinance does not identify a specific funding source for economic development. However, a variety of tools may be used to finance new development projects, including:

- Section 108 loans — long-term loans secured by some form of collateral and revenues generated from a project or paid from a portion of the city's annual Community Development Block Grant (CDBG) allocation;
- Annual CDBG allocation — ideal for infill development projects and tenant improvements under the category of job creation or blight elimination;
- CDBG program income — net proceeds from any project made possible through the use of CDBG funds;
- New project-generated sales tax and property tax rebates — uses new sales tax and property taxes created from the development to help offset project costs;
- Short-term lines of credit — secured and repaid by new property or sales taxes generated by the project;
- Federal/state grants or economic development initiatives — these increase access to capital for small businesses, a key component of job creation, and help provide additional security for a Section 108 loan;
- Loans from the General Fund or Enterprise Reserve Funds (if these funds exist) — these may require a loan agreement as well as an interest component to do some types of projects;
- Sale of city assets;
- City fees that are discounted, waived or deferred — negotiated incentives to make it easier to attract new businesses and investments;
- Brownfields assistance — assistance to assess and remediate abandoned or underused industrial and commercial property. Funding may be available via the Environmental Protection Agency and federal/state agencies;
- Infrastructure Financing Districts (IFDs) — bonds issued through IFDs require two-thirds voter approval and can be used to help pay for infrastructure-type projects by diverting property tax revenues to pay debt service from other local governments, except schools;
- Revenue bonds — backed by revenue generated from a project funded with bond proceeds and repaid by earnings from the operations of a revenue-producing enterprise;
- Conduit revenue bonds — tax-exempt bonds issued by charter cities or joint powers authorities for economic development or multifamily housing. The bond is payable from loan payments received from the non-

governmental developer on the condition of a public benefit, and it presents no liability for the governmental entity;

- Community Facilities Districts — bonds used mainly to finance public works improvements and services or to pay for specific, limited improvements related to privately-owned or real property. The parcel tax associated with the specific improvements requires two-thirds voter approval;
- Assessment Districts — a charge assessed against real property whereby there is a benefit from a particular public works or public services project or activity undertaken by the city. The voter-approved assessment becomes a part of the funding mechanism to defray the cost of the project.

Cities should work with their legal counsel to explore similar "self-help" economic development program options at the local level that may exist for both general-law and charter cities and to ensure that related issues, such as debt limits and gifts of public funds, are appropriately addressed.

Taking Aggressive Action

Alhambra is planning to use its new authority to implement an aggressive economic development program. The city is presently working on a 400,000-square-foot retail center; it may use a combination of new sales and property tax in the center, along with a reduction in its planning and inspection fees, to underwrite the project's proposed public parking structure.

Negotiations are also set to begin on a new downtown mixed-use center that may include 140,000 square feet of retail space with 260 units of for-sale housing and public parking. The city may decide to use CDBG program income from the sale of a former asset along with a portion of new net assessed property tax generated by the proposed center to pay for the project.

Alhambra is considering the construction of a 295-space downtown parking structure as well and may elect to borrow from its reserves to underwrite the cost.

The Road Ahead

Even with the approval of the new economic development ordinance, the city's leaders recognize that the road ahead will not be an easy one, especially as Alhambra winds down its redevelopment agency operations. While implementing a new economic development program in a post-redevelopment agency world is sure to present challenges, it will also certainly provide opportunities.

Going forward, cities must remain steadfast and unified in building alliances by working with the League and the California Redevelopment Association to appeal to the Legislature and Gov. Brown to develop a statewide economic development program and strategy.

Perseverance and creative thinking are key in the effort to reinvent local economic development. Cities can use this opportunity to devise innovative, sound alternatives to finance development projects that will ultimately generate new investment and jobs in their communities and promote sustainability and resiliency when new challenges arise.