

Arcata scrambling to rescue redevelopment assets from budget ax; state taking 'meat cleaver' approach

Allison White/The Times-Standard

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Arcata is working against the clock to come up with a plan to save the city's redevelopment assets with a worst-case scenario deadline of March 31.

"This is all coming fast and furious," Community Development Director Larry Oetker said.

The threat to redevelopment is coming from the state capital. Part of Gov. Jerry Brown's budget proposal is eliminating all redevelopment agencies across the state in an effort to divert the funds to balance the state's perilous budget. Redevelopment agencies have been funded for decades through local property tax increments with the goal of revitalizing blighted areas and improving the community's economic base.

March 31 is the estimated time when the Legislature will consider adopting the budget, so the city is attempting to make the necessary changes by that date, Oetker said. If the proposal passes, the redevelopment agency will immediately be limited in what it can do, and would be eliminated entirely July 1.

Projects under contract will be allowed to continue, but other pending projects will not. Of recent projects, Oetker said, the Sandpiper Park project is already under contract, the senior housing project should be under contract by March 18, and the transitional housing project should have its contract by the end of the month.

"Everything else is on the cutting block at this point," Oetker said.

The Arcata Community Development Corp. has about \$12 million in assets, including \$4 million in property, about \$4 million in cash for future projects, and about \$2 million it receives in payments from the loans it has issued, Oetker said. According to the language in the proposed budget legislation, all the property would be sold that was not deemed part of an approved project and the other assets would also be taken away. Oetker said he was "surprised and shocked" when he first read the language.

"How would you feel if you spent years acquiring property and the governor told you that you had to sell it all and couldn't keep the money?" he said.

To meet the fast approaching deadline, the council held an additional meeting on Thursday, passing a resolution to commit funds and transfer assets and real property to the city. As a backup, the city will also begin creating a housing authority.

Creating a housing authority could add an extra layer of protection for the redevelopment funds that are set aside for housing projects and programs, said Councilman Shane Brinton at Wednesday's meeting.

Councilman Mark Wheetley said it is aggravating to "watch them slowly unravel" the redevelopment structure and projects the city has been working toward for years, for what he considers a "misguided budget effort."

"A more surgical approach would be more effective than the meat cleaver approach," Wheetley said.

Cities like Arcata will be paying the biggest price, as it is difficult for smaller cities to otherwise leverage funding for one-time costs such as construction, he said. Although other cities may have misused the funds, Arcata has followed all the state standards in redevelopment, the housing element and other efforts, he said. Without redevelopment funds, Wheetley is unsure if Arcata will be able to meet the state housing obligations.

There would also be a financial impact on the city's overall budget. If the agency is eliminated, it will likely require layoffs and cuts in other areas of the city, Arcata Finance Director Janet Luzzi said. About four full-time equivalent positions are funded through redevelopment, and Luzzi said 15 percent of her own salary comes from redevelopment for the work she does for the agency.

Even if the city is allowed to be the successor agency, there would be a \$250,000 cap on administrative costs -- the agency currently pays about \$400,000 for staffing, Luzzi said.

According to the California Redevelopment Association's legal analysis of the governor's proposed legislation, three entities would be involved after the elimination of each redevelopment agency if this budget goes into effect July 1. A successor agency would manage the assets, and would be the city unless it opts to not be. There would also be an oversight board created with seven members, four from local education districts, one from the city council, one from the Humboldt County Board of Supervisors, and one from the largest special district.

"The oversight board may direct staff of the successor agency, but it has no financial responsibility. The successor agency has financial responsibility, but the county auditor-controller controls the funds," according to the report. "This is a model for governmental chaos."

According to Brown's office, redevelopment agencies are using tax increment funds that would otherwise go to schools and "core" local services such as police and fire. In his State of the State Address in January, Brown said that he admired the work of redevelopment agencies, but the money could be used elsewhere.

"So it is a matter of hard choices and I come down on the side of those who believe that core functions of government must be funded first," he said in the address. "But be clear, my plan protects current projects and supports all bonded indebtedness of the redevelopment agencies."

In the first year, money from agencies statewide would also be used to pay \$1.7 billion for trial courts and state health care costs, according to the redevelopment association's analysis.

Wheetley expressed his frustration on that payment to cover courts and health care costs.

"It's a one time pay back to the state," he said. "All this undoing of redevelopment and all the chaos that will ensue from this is for a onetime payback."

Whether or not eliminating redevelopment agencies in such a manner is legal under the state constitution is uncertain -- the redevelopment association analysis states that it violates both state and federal constitutions, but the governor's office has stated it is constitutional.

Luzzi said that she previously thought the proposed legislation could not go through based on the evidence that it appeared unconstitutional. However, as the debate progressed, she said she realized it was more and more a possibility because it is not just a legal question -- it is a political question.

City Attorney Nancy Diamond said it does appear unconstitutional, but there is a concern that if the city waits too long, it would lost the ability to do anything to save redevelopment's assets. The League of California Cities and other organizations have stated they plan to challenge the budget in court if the elimination is approved, but it is unclear whether they would be successful or if the court would issue a stay on the elimination, Diamond said.

The council acting as the agency board will be having multiple meetings throughout March on redevelopment matters. The next meeting will be at 9 a.m. Thursday at City Hall, 736 F St., Arcata.

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