

**STATUS OF  
SANTA MONICA COMMUNITY COLLEGE DISTRICT'S  
REQUEST FOR REDEVELOPMENT AGENCY FUNDING**

**STAFF REPORT**

August, 2001

## **Introduction**

This report provides information on the status of Santa Monica College's request to the Santa Monica Redevelopment Agency. The College has requested funding assistance for two earthquake recovery projects at the College's main campus. By way of background, it also provides information about other funding strategies that have been used locally to recover from the earthquake, as well as information about the Santa Monica Earthquake Recovery Redevelopment Project itself.

## **Background**

The January 17, 1994, Northridge Earthquake was the costliest disaster in U.S. history. Lasting only 15 seconds, this magnitude 6.7 trembler caused 51 deaths and injured more than 9,000 people. It left more than \$44 billion in damage, eleven major roads into Los Angeles closed, and more than 22,000 homeless.

The earthquake was also Santa Monica's worst disaster. About 400 buildings were red- or yellow-tagged (either unsafe for occupancy or entry limited to emergency purposes only).

Santa Monica College was especially hard hit. The college campus has 19 major structures. Of these, two were demolished, one has greater than 30% damage, and four others suffered damage above \$1 million.

At least four funding strategies have been used locally to assist residents, businesses, and institutions recover from this earthquake. To date, the most notable of these has been assistance from the Federal Emergency Management Agency (FEMA). The City of Santa Monica, St. John's Hospital, UCLA-Santa Monica Hospital, and Santa Monica College have received the largest amounts of FEMA assistance. The Santa Monica & Malibu Schools have received a comparatively smaller amount, and hundreds of Santa Monica businesses and residents have each received amounts ranging from a few hundred dollars to about a half-million dollars.

Additionally, a second Federal assistance program has provided about \$36 million to Santa Monica through the MERL (Multi-Family Emergency Recovery Loan) program. These loans are now starting to be repaid, and this assistance will continue to be available to provide for housing.

A third source of funding has been from insurance. In Santa Monica College's case, insurance recovery funds have been modest, under \$200,000.

The fourth funding strategy has been the creation of the Santa Monica Earthquake Recovery Redevelopment Project. Redevelopment is a tool available to municipalities and counties that allows local property taxes to be redirected for certain purposes and under certain conditions.

As the economy strengthens in Santa Monica, it is likely that the funding assistance from the Earthquake Recovery Redevelopment Project will exceed the total local funding provided from FEMA.

## **About the Santa Monica Earthquake Recovery Redevelopment Project**

In response to the January 1994 earthquake, the Santa Monica City Council on June 21, 1994, adopted Ordinance Number 1747 (CCS), which established a Redevelopment Plan for the Santa Monica Earthquake Recovery Redevelopment Project. The plan was prepared pursuant to a State law, the Community Redevelopment Law and the Community Redevelopment Financial Assistance and Disaster Project Law. The project encompasses approximately 3.6 square miles and is generally bounded by Pico Boulevard on the south, 26<sup>th</sup> Street on the east, Montana Avenue on the north, and Ocean Avenue on the west. The project boundaries were intentionally crafted to include Santa Monica College's main campus.

The primary purpose of the plan is to assist in earthquake recovery. Section 1 of the ordinance approving the plan states:

The purposes and intent of the City Council with respect to the Project Area are to undertake, carry out, or approve projects to maintain, repair, restore, or replace property and facilities damaged and destroyed as a result of the Earthquake, and to perform actions necessary to prevent or mitigate an emergency located within the Project Area . . . .

Santa Monica College was approached by then City Manager John Jalili and asked to testify in favor of the adoption of the plan. Representatives of the College did testify in favor of the creation of the plan prior to its adoption.

On June 21, 1994, the City Council also approved a five-year plan that identified existing conditions and established goals. Goal 4 of this initial Five-Year Implementation Plan acknowledged that there was a need "to restore institutions damaged by the earthquake to their pre-earthquake levels" and adopted the following program of the Redevelopment Agency:

Assist the Santa Monica/Malibu Unified School District and Santa Monica Community College with the costs of repair and reconstruction of earthquake damaged facilities.

Goal 5 of the current Five-Year Implementation Plan adopted in 1999 provides: "Assist the Santa Monica Community College District with the costs of repair and reconstruction of remaining earthquake damaged facilities." Although set forth in the Five-Year Implementation Plan, this goal was not adequately funded.

To date, other than pass-throughs mandated by law to be paid to public agencies, Santa Monica College has received no assistance from the Redevelopment Agency to repair and reconstruct earthquake damaged facilities.

## Request for Redevelopment Agency Funds

During the initial years of the project, the College understood that financial assistance was not likely. It takes several years for tax increment monies to begin to be generated. Thus, we did not expect to receive assistance during the early years of the project. However, the 1999 purchase of the Rand Corporation property with Redevelopment Agency funds triggered our inquiry concerning the current availability of funds to meet the central purposes of the Earthquake Recovery Redevelopment Project. Based upon our review, the Redevelopment Agency now has adequate resources to assist the College, as was promised in 1994.

The following table summarizes estimated and actual gross tax increment revenues:

	<b>1994 Projections</b>	<b>1999 Projections</b>	<b>Actual</b>
1998-1999	\$ 4,425,014	N/A	\$ 7,320,717
1999-2000	\$ 5,363,818	\$11,484,000	\$15,939,534
2000-2001	\$ 6,321,398	\$12,750,000	N/A
2001-2002	\$ 7,298,130	\$15,409,000	N/A
2002-2003	\$ 8,294,396	\$16,423,000	N/A
2003-2004	\$ 9,310,587	\$17,458,000	N/A
2004-2005	\$10,347,103	N/A	N/A

As this table indicates, 1999-2000 revenues greatly exceed projections. We believe that the Redevelopment Agency continues to underestimate the amount of tax increment revenue that will be available in the future. The Redevelopment Agency forecasts growth based upon 2% annual growth in assessed valuation. This approach does not take into account the major property dispositions that routinely occur within the Project Area. Historical data suggests that the 2% growth rate is too conservative. For example, the average annual growth in assessed valuation was 8.5% during the last twenty-five years, 4.9% during the last ten years, and 6.0% during the last five years.

The statutory payments that the College receives are insufficient to address its earthquake repair needs. To date, the College has received \$122,408 that can be utilized for facilities (part of the statutory payment is treated as a tax payment that reduces State educational aid). Our estimate is that payments during the next 10 years will average \$121,000 per year (even assuming a higher growth rate in assessed valuation). This is an amount that is woefully insufficient to meet our immediate capital needs caused by the earthquake.

In light of the availability of Redevelopment Agency monies, the College made a presentation on August 23, 2000, to the joint liaison meeting of the City, College, and School District on the earthquake damage we incurred and the projects eligible for Redevelopment Agency assistance. Following this meeting, by letter dated November 15, 2000, we made a formal request for redevelopment agency assistance for the following projects:

## **1. Liberal Arts Building Replacement.**

Estimated Cost:	\$13,242,000
Redevelopment Agency Assistance:	\$10,242,000

## **2. Parking Structure B Replacement.**

Estimated Cost:	\$ 9,000,000
Redevelopment Agency Assistance:	\$ 5,500,000

On January 9, 2001, representatives of the College made a presentation to the City Council concerning our request. Additionally, by letter dated January 29, 2001, we wrote a follow-up letter to members of the City Council.

### **City Response**

To date, the College has received no written response to our request for funding. However, the College request for funding assistance for the Liberal Arts Building and for Parking Structure B Replacement was addressed in the Staff presentation to the City Council as part of the budget study session on Tuesday, May 29, 2001.

The College request was incorporated into a staff presentation that provided an overview of the City's Capital Improvement Program.

For the past several years, the City has identified capital improvement projects in a three-year financial planning document, updated annually. Additionally, this year, staff has prepared a less formal document that is a projection of capital needs and resources through the year 2010. A copy of this PowerPoint presentation is included as Attachment 1.

In this projection through the year 2010, the list of projects includes a number of the projects that are included in the three-year plan (mostly the major ones and a few other high visibility ones) and introduces a number of "anticipated" (new) projects as well.

Projects through the year 2010 are categorized as seismic-related projects, major capital projects, civic center improvement projects, and affordable housing. The sources of funds are listed as General and Related Funds, Debt, Redevelopment, and Other Funds & Grants. The College's projects follow this listing of projects and sources with the heading, "Requests from Other Institutions."

The City's presentation reaches the conclusion that there are \$130.6 million of unfunded capital needs through the year 2010. It divides these unfunded needs into those that are Redevelopment eligible and those that are General Fund eligible. The document does not identify a source of funding for the College request.

City staff indicated that it was recommending the adoption of the capital projects listed in the three-year plan in June (Council has followed this recommendation), and later this year hold a public hearing to address a number of questions that this new Year 2010 listing poses. The questions include several policy issues related to how to direct year-end savings, how to apply one-time funds annually, and when and whether to incur debt. The questions also include whether to defer projects and whether or not to identify additional projects. Lastly, the questions include whether to commit funding to other institutions (this is meant to include the request from the College).

## **Discussion**

For all of the complexity represented by the foregoing paragraphs, the underlying narrative is straightforward. Revenues from the Earthquake Recovery Redevelopment Project area have exceeded initial projections and in fact have exceeded the amounts needed to repair or replace facilities actually damaged by the earthquake. As a consequence, these revenues are now being integrated into other City of Santa Monica capital improvement projects.

Certainly, the City of Santa Monica has developed a comprehensive and thoughtful capital improvement program. Total capital reappropriations, appropriations, proposed appropriations, and identified needs now total about \$792 million from FY 2001-02 through the Year 2010, including the College request for \$15.7 million. However, the College request for funding assistance should be judged on its own merits, and independent of other City of Santa Monica capital programs.

The College's position on the priority of these projects has been clear since 1994, when asked by the former City Manager to support the creation of the Earthquake Recovery Redevelopment Project and to provide public testimony. The first priority of the Earthquake Recovery Redevelopment Project is to carry out projects that maintain, repair, restore, or replace facilities that were damaged or destroyed as a result of the earthquake. Indeed, had the recovery project been established after 1994, state law would have restricted the use of revenue *exclusively* to projects that repair or replace improvements within the project area that have been damaged or destroyed by disaster.

The Liberal Arts Building was constructed in 1952, funded entirely with local property taxes. It is adjacent to the Science Building, which was destroyed in the earthquake. FEMA will provide \$3 million in funding assistance to repair or replace the building. Replacing the building is a more sensible, safe, and prudent course of action to take, as the building has poor functionality, low technology, and low efficiency.

We have applied for State funding to replace this building, but it was not funded. There is little likelihood it will be funded in subsequent years. The shortfall is \$10.242 million.

Parking Structure B was constructed in 1981, and is the only parking structure in the City of Santa Monica to be red-tagged and subsequently demolished. The replacement structure will be an extension to Parking Structure C, as the old structure is now the site of the new Municipal Pool. The total cost of replacement is \$9 million. The State does not provide funding for parking structures, and the fee revenues that the College receives from parking are not sufficient to pay for our current structures. FEMA has provided funding of \$3.5 million, but has denied additional funding. The shortfall is \$5.5 million.

Some councilmembers have asked us why we need assistance for the Parking Structure B Replacement, since this project has already been approved. Because of timing issues to retain FEMA funding, the College has borrowed monies from current programs in order to begin construction immediately. In general, it is the function of agencies such as insurance companies, FEMA, and recovery redevelopment project areas to shift the cost of recovery to the broadest possible pool of parties of benefit as possible.

Placing the cost of recovery for the Parking Structure B Replacement on current programs is inappropriate. The appropriate sources of funds for this recovery are FEMA and the Earthquake Recovery Redevelopment Project.

Also, councilmembers have asked whether the College can receive earthquake disaster assistance from the Redevelopment Agency without incurring an equivalent loss of educational state aid. Unlike the unified school system, the College can receive earthquake disaster assistance from the Redevelopment Agency without a loss of state educational aid, although we recognize that assistance might result in a future reduction in statutory payments from the agency. (Compare Education Code section 84751(d) for community colleges with Education Code section 42238(h)(7) for K-12.)

Santa Monica has gained a unique resource with the creation of the Earthquake Recovery Redevelopment Project. Out of more than 830 redevelopment project areas in California, the Earthquake Recovery Redevelopment Project is the second or third wealthiest, with an assessed valuation in excess of \$5 billion. It is far and away the largest revenue producing recovery redevelopment project in California.

Given the total resources available to the Earthquake Recovery Redevelopment Project, we believe that the Redevelopment Agency can now meet the commitments made when the project was adopted. Indeed, the fundamental question that remains unanswered is why the Agency is not honoring its 1994 commitment to the College.

Santa Monica College has come a long way in our recovery, thanks to FEMA, the availability of Prop T funds at just the right time, and some State capital grants. These recovery projects are the last mile, the last 10%. Now is the right time to act.

## **Recommendations**

It is recommended that the Board of Trustees reaffirm the College's request for earthquake recovery assistance and direct staff to continue to work with representatives of the City to secure such assistance.

Attachment A: Capital Improvement Program FY 2001-02 through FY 2003-04 Report, prepared by the City of Santa Monica (not available electronically).