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# HIGHWAY ROBBERY

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Sidney Stone's dream home is rotting.

Weeds as tall as children choke the yard. Plywood seals the windows. Inside, in the cool dark, graffiti scars the bedroom walls.

Stone stands in the back yard, remembering the day in 1961 when he pulled his Dodge onto this hillside in Hayward – then an empty lot with sweeping views of the San Francisco Bay.

On this spot the retired Baptist pastor started planning the home where his wife, weakened with multiple sclerosis, could move about with greater ease and his two children could play amid bay breezes.

And he remembers another day, nine years later, when a state highway agent told him his custom-built home was in the path of an eight-lane highway project. He would have to sell to the California Department of Transportation.

Like more than 1,000 others in the area, the Stones packed their things and said goodbye. That was 1970.

“They made it sound urgent, like they were going to start construction any day,” Stone said.

Today Stone's former home still stands, mildewed, disfigured, crumbling.

The highway was never built.

An Orange County Register investigation found that Caltrans has repeatedly displaced property owners for highway projects that went nowhere – from the abandoned widening of Pacific Coast Highway through Orange County to Hayward's failed freeway loop near the San Francisco Bay.

Along the way, Caltrans used eminent domain to buy thousands of homes and businesses it didn't need, holding onto them for decades.

Caltrans is now a landlord to residents and workers in more than 1,300 homes and businesses – a job it was not created to do.

This is a story about how the nation's largest freeway builder neglected its massive land holdings, creating blight and despair. It's about how Caltrans kept properties off the tax rolls, draining county coffers of tens of millions of dollars in lost revenues. It's about abuse of power.

A Register analysis of the department's databases, thousands of pages of documents and hundreds of interviews show:

- The department has become one of California's worst slumlords and property managers, owning over time hundreds of abandoned homes and businesses that have served as temporary drug dens, crash pads for teenage vandals, community dumps and homeless encampments.
- Caltrans doesn't have to obey local laws that apply to slumlords, allowing the department to neglect its land holdings and get away with it. No local authority has been able to force the department to clean up its land or repair its homes.
- Under the most conservative estimates, the department's large portfolio of unused land has deprived counties of at least \$78 million in lost property tax revenues. Money that could have gone toward schools or hiring police has vanished. The actual loss may be closer to \$300 million when you factor in the strength of California's real estate market.
- When Caltrans does part with unused land, it has fared poorly. Almost half the time, the department sold properties for less than the state paid for it – on average 60 percent less.

The Register's analysis found that aside from freeways and highways, the department owns more than 12,000 acres – roughly the size of Garden Grove. At least one-third of the department's land was bought more than three decades ago.

Its land holdings are so vast, Caltrans has trouble accounting for it all. Until this summer, the department didn't know about a Laguna Beach day-labor site on land it has owned since the 1950s. And 14 months passed before Caltrans workers discovered an illegal skateboard park in Oakland near a freeway overpass.

The department's record keeping, meanwhile, is so shoddy that when asked, Caltrans officials couldn't estimate the value of its land. Its antiquated databases make it next to impossible to pinpoint how much land Caltrans actually owns.

"It's a disgrace," said former state Sen. Ross Johnson, who represented Orange County for 24 years and repeatedly tried to get Caltrans to sell unused land. "It's an understatement to say they've done a very poor job managing their assets. Their abuse of power adds up to real money that could be used for a lot better purposes than maintaining ownership over a slum."

In an interview, Gov. Arnold Schwarzenegger criticized the department but said his efforts to fix the problem have been thwarted.

“They have this mentality of not ever thinking about that the property exists,” Schwarzenegger said of Caltrans. “But then when you want to sell it, then they think about it day and night. And then fight it.”

Caltrans Director Will Kempton acknowledged that his department has been overzealous in its land purchases in the past.

Kempton, who was appointed two years ago by Schwarzenegger, said Caltrans sometimes ran roughshod over communities instead of working with them. He said that strong-arm approach has already changed and must continue to change.

“The old thinking just won’t work anymore. I preach customer service,” Kempton said. “We have to work with communities now – they are our partners – and we must find solutions together.”

Kempton also said Caltrans lacks the expertise to manage its properties. He hopes to hand off the job, possibly to another state department that has a better track record as a landlord.

“We have to recognize this isn’t something we are particularly good at,” Kempton said.

## **BROKEN PROMISES**

In the early 20th century, when the Golden State couldn’t grow fast enough, Californians loved their highway builders.

“We were saving people’s lives. Saving them time,” said Douglas Failing, director of Caltrans’ Los Angeles division. “Everyone who was building was a hero.”

During that era, lax laws and the unwavering faith of the highway-craving masses allowed the state to buy whatever land it wanted at bargain-basement prices.

It didn’t need detailed project plans, environmental studies or public notice. The Division of Highways – now Caltrans – bought homes, businesses and farms, hoping the state would use the land for a future highway.

The state scooped up tens of thousands of acres of land in the 1950s, 1960s and into the 1970s – dazzled by dreams of building more than 70,000 miles of highway to connect people in every part of the state.

About 45,000 miles – enough to circle the globe nearly two times– were actually built.

The freeway system became a cornerstone of the California economy. Commuters were able to zip between cities at record speed. Businesses flourished as trucks quickly delivered products to their doors.

Then, Californians began to see a dark side to the freeway-building boom.

Families and businesses were unnecessarily displaced. Asphalt lanes divided communities. Overpasses darkened neighborhoods where families once held picnics.

Engineers sat in their Sacramento offices designing the highway system without consulting communities that they were about to alter forever. Agents were dispatched to buy land that would allow construction of every conceivable path.

“It was a steamroller approach. Get out of our way, we are coming through,” said Mike Montgomery, who worked as a Caltrans attorney in the 1960s and now fights his former employer in court. “The attitude was, and is, if people get hurt and it’s for the greater good – then it’s fine.”

Things began to change in the 1970s. Freeway fighters organized from Newport Beach to San Francisco. An ailing economy drained construction budgets. State and federal laws were adopted, demanding a more careful study of projects before land could be bought or highways could be built.

The combination of events forced Caltrans to curtail its massive land-buying. But the department held onto most of its land.

Reform efforts have failed in part because the department’s directors didn’t stick around. In the past 30 years, Caltrans had 11 directors, each lasting an average of 2.7 years.

Former lawmakers like Johnson believe it is the long-serving bureaucrats who call the shots, resulting in a status quo that keeps the department awash in assets and jobs.

The way Caltrans gobbled up land – and then mismanaged it – serves as a lesson today for cities, counties and states across the nation at a time when eminent domain has become an explosive issue.

A U.S. Supreme Court ruling last year raised the stakes. The high court made it even easier for governments to buy private property. Proposition 90, which attempts to block these new powers in California, goes before voters next month.

The state department’s track record also is of particular significance to Californians now because of another November ballot initiative.

Schwarzenegger and the Legislature are asking voters to approve a \$19.9 billion transportation bond, about half of which would expand and upgrade the state’s 45,000 miles of highway, providing a huge infusion that could bring back the glory days of the highway builders.

## **SPREADING BLIGHT**

The residents at Casa Sandoval in Hayward knew the state's land management had gotten out of hand when homeless people camping in the department's abandoned property nearby began making daylight raids on the upscale retirement home, stealing food off their plates.

The retirement home is in the middle of one of the state's largest failed projects.

In Hayward and the neighboring unincorporated area of Castro Valley, Caltrans owns 366 rental properties and dozens of vacant homes – a total of 470 acres.

It bought the properties decades ago along the footprint of a 15-mile expressway that was supposed to hopscotch the grassy hilltops and speed motorists to cities throughout the south bay.

The freeway loop was never built. First, construction funds dried up. Next, community opposition mounted, and then a lawsuit prevailed. Through all of this, Caltrans decided to hold onto the homes.

“Look at what a mess it is. Can you believe it? It's obvious no one is monitoring it,” said Barbara Lee, who was forced to sell her home on Tamalpais Place in 1970. “There are two ways to look at it: You can either be upset because you were told you had to sell and were ripped off, or be glad you didn't get stuck in that mess they've made.”

As decades passed, the homes became community scars, a dramatic contrast with surrounding, privately held properties tucked among lush gardens. Today the neighborhood serves as a dramatic example of how property deteriorates in the state's hands.

For more than a decade, a broken balcony dangled from the rear of a brown and beige home on Palisade Street, five doors from Lee's former home, which Caltrans bulldozed shortly after buying it. A locked door was the only thing separating tenants from a 20-foot drop to a gully.

One mile away, a charred, crumbling home marred a major thoroughfare less than a mile from Hayward City Hall. The home burned in 2002, killing a tenant, but Caltrans left the scarred building standing.

Several blocks away, Valerie Vardanega gathers with neighbors, putting on thick gloves to pick up hypodermic needles discarded by drug users who break into another empty Caltrans-owned home on Crescent Avenue just over the Hayward border in Castro Valley.

Fed up with incursions by homeless people, Casa Sandoval fortified an outdoor patio next to its dining room with a 6-foot wrought-iron fence three years ago. The owners spent tens of thousands of dollars on the fence, security cameras and motion-sensing lights.

Living next to that kind of blight, according to real estate experts, can dramatically devalue a person's home. They estimate that an owner might see values drop 10 percent to 50 percent, depending on the severity and proximity of the tattered neighboring property.

"People will obviously pay more to live in neighborhoods without obnoxious houses or derelict buildings," said John Wallace, a real estate expert and former economist at the Stanford Research Institute.

The head of Caltrans' property maintenance division for the region acknowledged his department's blemished record as a landlord.

"We try to keep up with the vandalism and the homeless, but we can't," said Monico Corral, the maintenance division leader. "As soon as you have a vacant house, the homeless find out. ... You can't believe how fast the destruction can happen."

Corral and his team of six agents say they spend more than 100 days a year driving the old path of the never-built 238 bypass. However, Corral could not explain how his team repeatedly missed so many eyesores.

After the Register made inquiries earlier this year, Caltrans finally demolished two fire-ravaged houses in Hayward, removed the broken balcony on Palisade Street and rented goats from a local company to chew away the weeds.

Kempton, the Caltrans director, said the department plans to get out of the property management business in Hayward but said the process could take years before the first parcel is sold.

That leaves Sidney Stone wondering what will happen to his former dream home.

"They got it for \$36,000, and I should be allowed to buy it back for that," said Stone of his home, now worth between \$700,000 and \$800,000.

## **TENS OF MILLIONS OF DOLLARS**

In Hayward, the erosion of properties was blamed on the state's failure to fund repairs.

But in Pasadena – where a 4.5 mile extension of the Long Beach (I-710) Freeway has stalled – Caltrans spent tens of millions of dollars over the past decade and still managed to bungle repairs repeatedly.

Caltrans reached its low point as a landlord in the region in the mid-1990s. At the time, one-quarter of Pasadena's Caltrans-owned homes were boarded up and abandoned. Trees and vines grew thick and uncontrolled, making the century-old Arts and Crafts mansions appear haunted.

“Watching these homes fall apart, it was just criminal. It’s been one disaster after another,” said Susan Mossman, executive director of Pasadena Heritage, a nonprofit historic preservation group.

The I-710 extension was intended to connect the San Bernardino (I-10) Freeway to the Foothill I-210) Freeway. But residents opposed the project, believing it would ruin their quiet suburban neighborhood.

Caltrans engineers believed they’d eventually get their way and repeatedly reconfigured the highway, taking more and more land. The historic homes were treated as short-term nuisances, not worthy of much attention.

“I think there was this belief in the department, however false, that at any moment the highway project was going to move forward,” said Linda Wilford, who nearly four years ago began managing properties for Caltrans along the stalled freeway corridor.

Finally, in the mid-1990s, community, city and federal leaders pushed Caltrans to invest in the properties – with special emphasis placed on 92 historic homes.

Over the next 10 years, Caltrans spent more than \$30 million to repair hundreds of homes in the corridor. But state records and visits to the homes show the efforts have been troubled by cost overruns, unfinished work and shoddy craftsmanship.

Four historic homes that Caltrans described as “museum-quality restorations” best illustrate the problems.

Beyond the fresh coat of paint, three of the homes were left in various states of disrepair and, in one case, a home was quickly wrecked after the work was complete in the late 1990s, records show.

Mold damage was so severe in one of the houses that Caltrans had to pay tens of thousands of dollars to do additional repairs, replace damaged belongings and pay for a hotel for the displaced renters. In another home, the restoration was not finished. Two bedrooms remain boarded shut.

A third home was left vacant, drawing vandals who trashed it and drove a car through the detached garage.

In 2001, Caltrans finally conceded that the rehabilitation program – which specifically targeted the 92 historic homes – had failed.

The way Wilford, the Caltrans manager, has spent the repair money continues to draw criticism from tenants.

Most recently, Wilford picked four vacant historic homes to restore, spending more than \$1 million in taxpayer money on carpet, roofs, plumbing, resurfaced hardwood floors and

fresh paint. Wilford called them “gems” and hoped to bring \$3,000 to \$4,000 in monthly rents.

Six months later, two of the four sit vacant, with potential tenants discouraged by the high rent.

Renters in other nearby Caltrans-owned homes watched the restorations in frustration. They live in some of the lower-rent properties and have been asking for repairs for years. But Caltrans has put most of its efforts into homes that command higher rents.

John Kvammen, who lives in one of the reduced-rate homes, begged Caltrans to fix window and roof leaks, peeling plaster, burgeoning mold and mildew problems, a rat infestation and a garage door attached by a single hinge.

After 18 months of unanswered requests, Kvammen began carbon-copying the Register in his complaint letters to Caltrans. The major repairs were taken care of several months later.

“The whole thing is infuriating,” Kvammen said.

Kvammen’s repair list is common. The Register found over the past decade that 40 percent of the department’s rentals had faulty plumbing, 20 percent had leaky roofs and six percent experienced rodent infestation. Since Caltrans only logs completed repairs, the list of problems could be much longer.

The department’s involvement in Pasadena won’t end anytime soon.

The Los Angeles County Metropolitan Transportation Authority just completed a multi-million dollar study looking at the state’s latest alternative: An underground freeway tunnel that would require buying perhaps dozens, if not hundreds, of additional properties. Not knowing where it must tunnel, the department plans to hold onto most of its current properties indefinitely.

“Caltrans needs to stop the occupation – and that’s what it is – and sell these homes so this place can be a community again,” said Mossman, of the Pasadena preservation group.

## **LOST FUNDS**

The department’s ownership put a squeeze on the flow of tax revenues into counties across California.

Government agencies are exempt from paying property taxes, so wide swaths of land taken over by Caltrans have not been generating taxes for Hayward, Pasadena, Newport Beach and other communities.

Statewide, according to the Register's most conservative estimate, counties lost at least \$78 million in taxes because of the department's practice of holding onto properties for decades even after a project clearly had reached a dead end.

But the lost revenue is likely much higher.

Using a second method, the Register determined that \$297 million may have been withheld from local governments. The higher figure assumed that the property in private hands had appreciated at the same pace as the rest of California's real estate market.

That's enough money to build 20 elementary schools, hire 200 police officers and repair 55 miles of Southern California's worst roads.

"It's outrageous," said state Sen. Tom McClintock, a Republican from Thousand Oaks. "The financial harm is real."

McClintock wrote legislation this year that called for returning eminent-domain-claimed property to original owners if it had not been used within five years. The bill died.

"It's an absolute tragedy when a planned highway goes through someone's living room," McClintock said. "But what I've seen with Caltrans is they seize homes ... and then sit on them."

Lawmakers and local authorities have tried to reverse the trend for decades.

In the 1930s, the California Legislature passed a law requiring that 24 percent of all collected rents on Caltrans properties be paid to counties. The payment was intended to ease the pain of lost taxes.

However, only 15 percent of land owned by Caltrans generates income that is shared with counties, according to the Register's analysis.

In the 1960s, the Legislature passed a second law designed to help local governments reclaim lost revenue.

This one requires Caltrans to pay back taxes to counties when it finally sells land if none of it was used for the highway project.

But Caltrans has interpreted this law so narrowly that payments have never been made. In response to questions from the Register, Orange County officials say they plan to launch their own investigation into the hundreds of properties Caltrans has sold locally to see if the county is owed back taxes.

"Caltrans seems to have damaged the taxpayers of Orange County twice, once in the taking and then again in the failure to pay tax," said Chriss Street, Orange County's

treasurer-tax collector elect. “Caltrans may have robbed this county of millions of dollars.”

## **FEELING VICTIMIZED**

There’s a long list of people who feel robbed by the state’s handling of eminent domain.

Becky McKenzie is one of them.

McKenzie is no freeway fighter. She always thought Caltrans would need her Santa Ana home for the I-5 widening in Santa Ana. That’s why in 1987, when she and her husband, Mac, were thinking about remodeling their cottage-style home, she first called Caltrans.

Would they need it? No, she was told. She asked if they might need some of her expansive back yard. Again, the answer was no. So the couple secured an equity loan and started scraping and painting – replacing everything from the kitchen cabinets to the outside stucco.

Four years later, Caltrans demolished her home. They ultimately used a fraction of the yard, which was about half the size of a football field.

She gladly would have stayed and sold Caltrans the piece of land. But that was never an option. Caltrans paid the couple \$195,000.

“It was heartbreaking,” said McKenzie, who now lives in Orange. “We got none of that sweat, effort or money back.”

After the McKenzies moved, Caltrans turned around and sold it at a 60 percent loss – for \$77,000. The size of the parcel had been reduced six percent.

It wasn’t the first time the state lost money on property it no longer needed.

Caltrans sold at a loss 83 parcels bought through eminent domain, according to the Register’s analysis of 185 properties for which complete information is available. Although the state used some slivers of the land before selling, the vast majority was not needed.

“You wonder how often does this happen to people?” McKenzie asked. “How many people come back to their old homes and see they could still be living there?”

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