Los Angeles Corporate Welfare: Ritz-Carlton and AEG

Rich entities siphon taxpayer money while real communities struggle

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South Central Neighborhood Council budget expert Daymond R. Johnson: Less than impressed by the new, luxury, taxpayer-subsidized Ritz-Carlton

It is everything a big-city corporate skyscraper could be — a thin, shimmering downtown tower, 54 stories high, wrapped in tints of blue, the nearly completed Ritz-Carlton Hotel & Residences and JW Marriott at L.A. Live. A short walk from Staples Center and the L.A. Convention Center, downtown's newest asset is set to open in February 2010. From the days of Mayor Tom Bradley and through the years of his successors, Richard Riordan, James Hahn and Antonio Villaraigosa, L.A.'s political elite and city boosters have lobbied for what the Ritz-Carlton and its surrounding enclave embody: a long-sought luxury hotel for conventioneers, a centralized city, a populated downtown more like Manhattan.

But the luxury hotel and other large edifices built on once-decrepit lands where the poor rented aging apartments, and prostitutes and drug dealers once operated, also represent a tale of two cities. Miles from Ritz-Carlton's concierge desk, in the hot suburbia of the San Fernando Valley, 100-year-old water mains are bursting. The city is reeling from budget nightmares, with the L.A. City Council and Mayor Villaraigosa overspending by $1 million — per day. The mayor has ordered firehouses to reduce the number of engine companies on duty on a revolving basis citywide. Unwilling to cut spending by laying off any of the city government's 48,000 workers, the council plans to pay $15,000 to $33,000 to 2,400 of them — to retire early. In a controversial plan to fund its overspending, being pushed by new District 5 Councilman Paul Koretz, the City Council is thinking of raiding proceeds from a new tax that Villaraigosa promised L.A. voters would be spent to hire police.

L.A. Live is set to flourish, but the city is falling apart.

"I call it environmental racism," says Daymond R. Johnson of South Los Angeles. "The streets leading into downtown have always been taken care of, but as you cross the 10 freeway and come south of downtown L.A., you begin to see the difference in the environment."

"Environmental racism" might seem like hyperbole, but Johnson is a thoughtful neighborhood council member named by the California Democratic Party as Democrat of the Year for Assembly District 48.

Johnson has represented the South Central Neighborhood Council on budget matters for the last six years. He works as a safety officer at a respected charter school.

He says that even such simple quality-of-life services as the synchronization of streetlights are handled differently in West L.A. than in his own neighborhood. Thanks to those double standards, he claims, “My neighborhood council area is one of the most deprived in the city of Los Angeles.”

Johnson, who lives in Councilmember Jan Perry’s district, notes that sectors of the city that have been starved, like South L.A., felt the budget pain long before any recession hit: “There was never a lot of attention to the area — so it would be an understatement to say that there have been cuts.”

Yet the city has, and is, aggressively pouring money elsewhere. Beginning with a deal signed on October 31, 1997, City Hall lavished millions of dollars in subsidies and tax credits on companies owned by Denver-based billionaire Philip Anschutz to fund the politicians’ downtown dream. City officials forced the poor out of 27 “blighted” acres of downtown around Figueroa Boulevard and replaced the aging neighborhood with lucrative ventures.

Although AEG’s Staples Center/Ritz-Carlton/L.A. Live endeavor will pay increased property taxes and sales taxes thanks to an expected growth in visitors to the area and its upscale hotels, L.A. taxpayers, who have poured so much of their public money into the deals, will not recoup the revenue from the lucrative hotel bed tax for 25 years. Thanks to agreements City Hall made with companies controlled by Anschutz, the 69-year-old recluse will keep pocketing these “bed” taxes — money that would normally flow to city coffers — until he is 95 years old and Villaraigosa and the City Council are long out of office.

A city-solicited study once boasted that taxpayers would reap $1.7 million annually from the bed taxes; in fact, Anschutz will see the first $62 million.

Moreover, instead of requiring the wealthy developer to secure private financing for the 27-acre project encompassing Staples, the Ritz-Carlton and L.A. Live, the city — meaning the Los Angeles public — provided an Anschutz company a $70 million, 25-year loan, which is being repaid on a yearly basis through Staples ticket sales.

Anschutz will not pay off that $70 million loan provided by L.A. taxpayers until 2025, yet public documents filed with the Los Angeles County Recorder’s office reveal that an Anschutz company has already sold off three significant parcels within the project area.

AEG took the revenue from the resale of the three parcels, a transaction allowed by the redevelopment agency, and then the city shifted the planned projects on that land over to new owners. Yet at least one of those key parcels contained lots seized by the Community Redevelopment Agency from a private owner, using the eminent domain statute, purportedly to fight “blight.”

The eminent domain takings in the area of what is now Staples and L.A. Live in the 1990s left many private landowners deeply embittered over being forced off their property at “market/fair value.” City Hall’s recent decision to let AEG sell seized lands means “they ‘flipped’ the property,” declares Marko Mlikotin, president of the California Alliance to Protect Private Property Rights. He calls the resale by private developers of lands taken via eminent domain “egregious.”

“The CRA was using public dollars to seize private properties. Shouldn’t that property revert to the original owner?” he asks.

It is almost impossible to tabulate how much money Anschutz made off the resale. Eminent domain was used in some form to take 107 of 152 lots around Figueroa, which were then consolidated into a huge property.

Today, the Villaraigosa administration and redevelopment officials are unable to tell L.A. Weekly such basics as which seized lots were involved in the private resale (which was allowed during Villaraigosa's reign), and how much profit Anschutz may have realized. Do AEG's leading political allies, Villaraigosa and Councilwoman Perry, owe the owners of properties seized under eminent domain — and bought with taxpayer help — an accounting? Perry, who represents the area, declined to comment on that issue.

The Weekly's queries resulted in confused and conflicting answers, with Deputy Mayor Bud Ovrom, through a spokeswoman, saying that the Villaraigosa administration is not responsible for keeping track of how much profit Anschutz has made; he's referring questions to the Redevelopment Agency. But the CRA does not keep track of this issue. Apparently, nobody does. Moreover, although the Chief Legislative Analyst's office generated the original, highly detailed figures claiming that giving the bed tax to Anschutz was a good deal, the current Chief Legislative Analyst, Gerry Miller, did not return calls made by the Weekly.

Advocates of the L.A. Live redevelopment argue that Anschutz, AEG and its related companies took a financial risk by building in a blighted area and should be rewarded. AEG, asked to comment on whether they made a profit reselling the land, declined to comment.

But Mlikotin dismissively notes, "Taxpayers are subsidizing these projects, but then developers and brokers are making huge profits."

Many political insiders see AEG, its president and CEO Tim Leiweke, and Anschutz as comprising a shadow government that continually persuades City Hall's leaders to funnel public money to downtown, at the expense of South Los Angeles, the Eastside, the Valley and several other areas.

In fact, although the Los Angeles public is not aware of them, huge, additional subsidies are about to flow to the L.A. Live/Staples area. With a push from Villaraigosa and Perry, $50 million is being taken from the state Housing and Emergency Shelter Trust Fund of 2006, bonds approved by California voters to finance housing for battered women and the poor — or so voters thought. But in Los Angeles City Hall, the pols sought $50 million from the bond, a large chunk of which they plan to spend on sidewalk and street amenities to dress up Figueroa Boulevard downtown — which feeds directly into AEG's publicly subsidized lands.

Mlikotin believes that "sound redevelopment projects don't require developers to feed at the public trough or require eminent domain to create profitable business ventures. When public agencies continue to offer subsidies, why would any developer want to pay full market price, when they know that the local CRAs will provide taxpayer funding?"

Jim Suhr, a veteran developer who has worked both in large-scale and small development companies, tells the Weekly that the breaks AEG got, as well as the diversion of the bed tax "are not uncommon for major deals" in the U.S.

But, Suhr notes, rather than being a forward-thinking venture, the L.A. Live project actually looks backward.

"The pattern of redevelopment over the past 50 years has been about land assemblage and large-scale projects," he explains. The Staples Center required a large developer — "you can't do a small-scale sports arena," he says, with a laugh — but "you can do small-scale urban-center buildings, as Pasadena and the Third Street Promenade proved."

Instead of amassing one privatized corporate block of land, Suhr argues, "The city could have worked with 30 small development projects, which could have accomplished the same mix."

That more forward-looking kind of redevelopment often increases revenues for smaller landlords and businesses. It generally does not concentrate huge profits, or tremendous political power, in the hands of one developer, like Anschutz — or the New York–based Related Companies, the chosen megadevelopers for the currently stalled luxury Grand Avenue hotel and shopping project.

Culver City is reaping the success of a redevelopment strategy that spreads the wealth rather than concentrates it. According to Todd Tipton, redevelopment administrator with the Culver City Redevelopment Agency, it financed about 20 smaller loans to restaurateurs, tenants and existing landlords in order to rehab building facades and complete several other upgrades near the intersections of Culver and Washington boulevards.

Ironically, these financially democratized developments often prove more successful, even as they take less in subsidies from the public than projects where the land is heavily concentrated to benefit one private owner.

Suhr notes that in the battle for consumers between Santa Monica Place, a large mall, and the more human-scale Third Street Promenade controlled by individual owners, the promenade proved more popular. That was repeated in Pasadena, where a merchant-driven redevelopment on Colorado Boulevard is more popular than Paseo Colorado, a mall.

"Loans to small business? It would definitely boost [the area] because right now, in South L.A., it's so hard for any small business to get money or start-up funds," observes Johnson, the South L.A. neighborhood activist. Such investments could replace the overwhelming number of liquor stores and used-car lots with more community-friendly businesses, he believes.

"There's a holistic store on Imperial and Vermont," he tells the Weekly. "They're a mom-and-pop store that sells different herbals, healthy things. They've been there since I was a little kid. My grandmother used to go there. It could really use funding."

In fact, the CRA has tried to rejuvenate South L.A. by funding human-scale rehabs involving numerous small recipients on such streets as Vermont Avenue and Adams Boulevard, and in Leimert Park. But those don't fulfill City Hall's lust for a glimmering downtown. For example, this year, Johnson's council representative, Perry, sought $2.8 million in public fiscal help — for MOCA, the sleek downtown museum with the multimillion-dollar art collection where private fundraising has been lagging.

If approved, that money would be spent far from Johnson's home, located near the corner of Florence and Normandie, ground zero of the 1992 riots. In fact, Perry's plan would divert money to the art museum from a Community Redevelopment fund — one dedicated almost exclusively to South L.A.