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From the Los Angeles Times

Firm boasts about 'mining' tax dollars to make big profits

L.A. pension boards invest millions in real estate companies that rely on city funds and planning choices.

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July 20, 2008

Los Angeles City Hall has any number of lobbyists, lawyers and consultants who make a good living on their ability to artfully and quietly work the political system.

But rare it is when someone brags -- in writing, no less -- about knowing how to turn handsome profits by persuading city, state and federal officials to let them tap millions of dollars in taxpayer funds.

That may explain why a marketing booklet prepared by Bond Companies, a real estate firm with offices in Los Angeles and Chicago, drew so much attention last week from top officials at the Community Redevelopment Agency.

While urging a city pension board to invest in Bond Companies, the firm's chairman and co-founder, Lawrence Bond, talked up his firm's success at securing taxpayer subsidies, lenient parking requirements and approval for high-density housing projects. In a sales packet to the board, Bond's firm said public dollars were central to its business plan.

Redevelopment commissioner Madeline Janis responded by pushing her agency to put new financial limits on one of the company's projects. Janis also voiced dismay that the company boasted in writing that it has a team assigned to "mine subsidies" at the city and elsewhere.

"Putting all this stuff in your public report . . . about mining subsidies, and how good you are at mining subsidies, it doesn't make the public agencies feel real good about investing," she told the company's representative.

One neighborhood activist went further, saying the 24-page sales booklet from Bond Companies made it appear that subsidies and favorable planning decisions were the rule, not the exception.

"It confirms my worst fears," said Robert Blue, who spent the last three years on the Hollywood Studio District Neighborhood Council. "Whatever the developers propose, whatever subsidies they request, it's all rubber-stamped."

In an era when many private-sector workers do not have pensions at all, the city's two primary public retirement systems have been directing millions of dollars toward companies that rely, at least in part, on other city agencies to make their real estate projects profitable.

One city pension board committed up to $40 million to MacFarlane Partners after that company described taxpayer subsidies as a key way to cut costs in the urban real estate market. MacFarlane is financing L.A. Live, a hotel complex that has permission to tap up to $270 million in tax breaks and city support.

Two city pension funds agreed last year to invest up to $50 million in CityView, which talked up its chief operating officer's "strong relationship" with city officials. CityView also included a photo of Mayor Antonio Villaraigosa in its sales packet and boasted of its success at persuading the mayor and a city councilman to change zoning for an 84-unit loft project on the Westside, increasing the property's value by millions of dollars.

Bond Companies may have been the most brazen, telling city pension board members that it has "proven ability and resources to capitalize on government subsidies" -- and its own database of public funds.

One urban analyst said the only surprise about the marketing pitch is that Bond was so candid about its ability to work the system.

"It's the ultimate insider's game, and that's what we're really seeing," said Joel Kotkin, author of "The City: A Global History."

"The people of Los Angeles are the backdrop to a bunch of people who use the city as a way of enriching themselves."

A Bond Companies spokesman defended the firm, saying it had worked to invigorate neighborhoods such as Hollywood, Chinatown and the South of Market section of San Francisco -- areas with higher crime, a lack of investment, or both.

Spokesman Raymond Minkus said taxpayer support for the firm's projects was based on requests from neighborhood residents for amenities such as restaurants, supermarkets and affordable housing.

"Subsidies are needed to address specific needs of a community," he wrote in an e-mail.

The pitch is working. Two city pension boards, both with members appointed by Villaraigosa, have voted to invest up to $30 million in Bond Companies. One high-level pension official commended Bond Companies for trying to improve neighborhoods, but said the city's investment was driven by a desire for strong returns. Bond Companies has projected a 16% return for LACERS, the Los Angeles City Employees' Retirement System.

"Everything they touch, they make money on," said Dan Gallagher, LACERS' chief investment officer.

Bond Companies and its employees have given more than $82,000 in contributions to city politicians and ballot measures. The sales booklet issued to LACERS points out that Bond was the finance co-chairman for Proposition H, a city housing bond measure.

Bond Companies also wooed LACERS by highlighting a few projects where it had obtained taxpayer support.

In materials submitted to LACERS' board members, Bond Companies predicted it would achieve a return for its investors of more than 42% for Blossom Plaza, a complex of condominiums and stores being built in Chinatown with at least $41 million in subsidies.

The number so disturbed redevelopment officials that they wrote an agreement to reduce the size of its subsidy if Blossom Plaza exceeds 10% on its return after costs. Bond Companies later said the 42% figure was wrong and should be readjusted to the low teens.

"We apologize for any misunderstanding that this may have caused," said Minkus, who blamed the marketing booklet information on a "third-party consultant."

Still, Bond Companies offered pension board members other cases where subsidized projects delivered double-digit returns.

In its booklet, the company promoted Aurora, an apartment building in San Francisco. City officials sold the site for $12 million below market value to ensure that 10% of the apartments would be reserved for lower-income residents, according to the booklet.

But Bond Companies renegotiated the pact to allow for the construction of a Whole Foods supermarket instead of subsidized housing. That project, when sold, gave investors a financial return of more than 42%, the booklet says.

In Hollywood, Bond Companies secured a $3.3-million subsidy for Sunset + Vine, apartments over a Borders bookstore and other retail space. Sunset + Vine also received special approval to erect billboards that generate $3 million in revenue each year.

The financial return? Twenty-nine percent, according to documents given to the pension board.

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