SUBJECT: Adoption of the FY 2010/2011 Budget for the Redevelopment Agency of the City of Sunnyvale

REPORT IN BRIEF
The Redevelopment Agency of the City of Sunnyvale (Agency) is required to adopt an annual budget. It is recommended that the Agency Board approve a resolution to adopt the FY 2010/2011 budget as outlined in this report.

BACKGROUND
The Redevelopment Agency of the City of Sunnyvale was established under the provisions of the Community Redevelopment Law of the State of California by a resolution of the City Council adopted on November 19, 1957. In this resolution, the City Council declared itself to be the governing members of the Agency.

The Sunnyvale Redevelopment Agency Fund accounts for activities of the Redevelopment Project Area, which is primarily the downtown area. This Fund accounts for debt service, capital projects, low-and-moderate-income housing, and general activities of the Agency. Capital projects can be long-term in nature and are often carried over to the next fiscal year. Certain transfers are made to the General Fund for repayment of the Agency’s debt. Calculations for this repayment are dependent on the Agency’s available resources at the end of the fiscal year, and therefore may differ from budgeted amounts.

EXISTING POLICY
Section 33606 of the California State Health and Safety Code requires that a Redevelopment Agency adopt an annual budget.

DISCUSSION
Recommended FY 2010/2011 Budget

Projected Revenues
Total recommended revenue for FY 2010/2011 for the Agency is approximately $11.8 million. A breakdown of the sources of revenue is highlighted below:
<table>
<thead>
<tr>
<th>Revenues</th>
<th>FY 2010/2011 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax Increment</td>
<td>$8,244,897</td>
</tr>
<tr>
<td>Rents and Concessions</td>
<td>$1,106,475</td>
</tr>
<tr>
<td>Addition to 1986 General Fund Loan</td>
<td>$2,424,303</td>
</tr>
<tr>
<td>Interest Income</td>
<td>$35,588</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$11,811,263</strong></td>
</tr>
</tbody>
</table>

The primary source of revenue to the Redevelopment Agency is Property Tax Increment, which is expected to total approximately $8.2 million in FY 2010/2011. Property Tax Increment is defined as Property Tax revenue generated within the redevelopment project area boundary in excess of the last equalized tax roll prior to the effective date of redevelopment plan adoption. The last equalized tax roll is known as the “Frozen Base.” Property Tax revenue generated from property valuations up to the Frozen Base goes pro rata to all taxing agencies such as schools, the County and the City. All property tax revenue generated above the Frozen Base goes to the Redevelopment Agency in order to repay investments made by the Agency to redevelop the project area.

The recommended FY 2010/2011 Budget for the Redevelopment Agency reflects Property Tax Increment that is approximately $760,000 lower than the projected FY 2009/2010 Increment. The reason for the reduction in Property Tax Increment is the expected decrease in assessed valuation of the property in the redevelopment area based on appeals of assessments by property owners in the area. While the County Assessor’s Office has not made a decision on the appeals as of yet, the assumption that many of the appeals would be successful was incorporated into the projections for Property Tax Increment. This is due to the recent slowdown in activity on the downtown redevelopment project that has reduced the value of a number of properties in the area. This reduction impacts not only the Property Tax Increment utilized by the Redevelopment Agency Fund to repay its loan from the General Fund, but it also impacts the Property Tax Increment due to the developer of the downtown redevelopment project.

The Rents and Concessions revenue is received from the City of Sunnyvale per the Sunnyvale Town Center parking structure lease agreement which was signed on May 1, 1977. The lease, as amended, requires the City to pay to the Agency base rental payments on October 1 and April 1 of each year. The rental payments are used to fund the annual debt service for the Parking Facility Certificates of Participation (COP). The lease agreement was later amended by the City and the Agency to substitute another asset. When the Mathilda Parking structure was demolished, the Macy’s surface parking lot and the land
underneath the Target structure were identified as this alternative asset for the purpose of the COP. In addition to base rental payments, the City is also obligated to pay all taxes, assessments, administrative costs, certain insurance premiums, certain maintenance costs, and all other such costs in order to comply with the terms of the related bond resolutions.

The Agency’s Long-Term Financial Plan also includes a resource entitled “Addition to 1986 General Fund Loan.” This represents the additional amount that the General Fund needs to loan the Redevelopment Agency to fund all expected expenditures in the fiscal year. The Tax Increment received by the Agency is not enough to cover all of the expenditures and debt service of the Agency. As a result, it is necessary for the General Fund to loan additional funds to the Agency. It is important to note, however, based on the priority in which expenditures must be paid, that the Agency will repay the earlier 1977 loan from the General Fund in the amount of approximately $7.6 million in FY 2010/2011. The net result is $5.2 million in revenue from the Agency to the General Fund.

The Agency also receives annual interest income of approximately $35,000 from the Debt Service Reserves on bond issues held with Trustees.

Operating Expenditures and Debt Service
Operating expenses for the Redevelopment Agency include only those activities directly related to management of the Agency. Total recommended expenditures for the Agency for FY 2010/2011 are approximately $11.9 million. Detailed below are the proposed expenditures:

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>FY 2010/2011 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>RDA Administration</td>
<td>$336,465</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$1,712,961</td>
</tr>
<tr>
<td>Repayment to City – 1977 Loan</td>
<td>$7,638,412</td>
</tr>
<tr>
<td>Repayment to City – Town Center</td>
<td>$2,125,639</td>
</tr>
<tr>
<td>Special Projects</td>
<td>$125,000</td>
</tr>
<tr>
<td>Transfer Out to General Fund (In Lieu)</td>
<td>$22,992</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 11,961,468</strong></td>
</tr>
</tbody>
</table>

Administration of the Redevelopment Agency, which includes activities in the Office of the City Attorney and the Department of Finance, is reflected in the Redevelopment Agency Fund in the amount of $336,465.

Debt service payments total $1.7 million for the Central Core Redevelopment

The Repayment to City – 1977 Loan represents payment to the City of Sunnyvale in the amount of $7.6 million in FY 2010/2011 for outstanding loans due to the City General Fund. At the close of FY 2009/2010 the Redevelopment Agency had two outstanding loans, the “1977 Loan” and the “1986 Loan,” due to the City’s General Fund totaling approximately $64 million. These loans are separated because there are two different repayment agreements. The projected total loan outstanding due to the City’s General Fund at the end of the plan in November 2028 will be approximately $30 million. As noted earlier in this report, after considering the repayment of the 1977 loan and the addition to the 1986 loan, the net repayment from the Agency to the General Fund in FY 2010/2011 is expected to be approximately $5.2 million.

As part of the Amended and Restated Disposition, Development, and Owner Participation Agreement (ARDDOPA) signed with the Town Center developer in February 2007 and as amended with the Modification Agreement on May 11, 2010, the Agency has agreed to return to the developer up to $4.5 million per year of Tax Increment plus 50% of any receipts above this amount, in return for construction by the developer of public streets and underground parking. This agreement reflects on the Agency’s Long-Term Financial Plan as Repayment to City – Town Center Developer, since the mechanism for making the payments will be repayment of the General Fund loan. The tax increment agreement ends in FY 2025/2026.

The FY 2010/2011 Recommended Budget for the Redevelopment Agency includes two ongoing special projects. These two projects include the Special Studies for the Redevelopment Plan Project Area ($25,000) and Outside Counsel Services for the Redevelopment Agency ($100,000).

The ongoing transfer of funds to the General Fund is for the services of the Agency’s Treasurer and other related support costs. These services are not charged directly to the Redevelopment Agency Fund, but rather are included in the General Fund and are charged as General Fund In-Lieu payments.

Reserves and Liabilities

Reserves
The Redevelopment Agency Fund maintains a reserve that reflects Debt Service Reserve Funds held by trustees for the two outstanding bond issues mentioned above.
Low and Moderate Income Housing Fund
The Redevelopment Agency is currently unable to make payments of 20% of its tax increment revenues to the Low and Moderate Income Housing Fund because of preexisting debt obligations. Each year, the Agency calculates the contribution that should have been made and books it as a liability in its financial statements. It is currently estimated that when the 1977 General Fund loan is paid off, the liability will total approximately $23.4 million. At that point, which is estimated to be FY 2015/2016, 20% of the Tax Increment received by the Agency will begin to be set aside for housing purposes. State law allows the Agency to extend the duration of the Plan and/or the amount of Property Tax Increment revenue that can be collected and direct the full amount towards eliminating any remaining housing liability. Repayments of the housing liability are anticipated to begin in FY 2028/2029, following the redevelopment plan’s current termination date of November 2028, and be completed by FY 2029/2030.

State Structural Budget Deficit
The State continues to experience a significant structural budget deficit. The adopted State budget mandated a statewide contribution from redevelopment agencies to a Supplemental Educational Revenue Augmentation Fund (SERAF) equal to $2.05 billion over a two-year period starting in FY 2009/2010. Sunnyvale’s Redevelopment Agency share of this take is $2.4 million. This will have a $416,323 impact on the Agency’s FY 2010/2011 budget. The California Redevelopment Association (CRA) has filed an appeal of this SERAF transfer as unconstitutional. Regardless of this outcome, the Agency’s revenues remain at risk. There are strong indications that Legislators are continuing to look at redevelopment funds as a means to deal with the State’s structural budget deficit. Staff will continue to closely track the actions of the Legislature in this area.

FISCAL IMPACT
Adoption of a budget for the Redevelopment Agency for FY 2010/2011 will authorize appropriate expenditures to be made as outlined in this report.

PUBLIC CONTACT
Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, in the Council Chambers lobby, in the Office of the City Clerk, at the Library, Senior Center, Community Center and Department of Public Safety; posting the agenda and report on the City's Web site; and making the report available at the Library and the Office of the City Clerk.
ALTERNATIVES
1. Approve a resolution to adopt the budget as recommended.

2. Approve a resolution to adopt the budget in an amount other than recommended.

RECOMMENDATION
Staff recommends Council approve Alternative 1, approve a resolution to adopt the budget as recommended.

Reviewed by:

Mary J. Bradley, Treasurer, Redevelopment Agency
Prepared by: Brice McQueen, Manager, Redevelopment Agency

Approved by:

Gary Luebbers
Executive Director, Redevelopment Agency

Attachments
A. FY 2010/2011 Redevelopment Agency Budget Adoption Resolution
RESOLUTION NO. _____-RA

A RESOLUTION OF THE REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE ADOPTING THE BUDGET OF THE REDEVELOPMENT AGENCY FOR FISCAL YEAR JULY 1, 2010 TO JUNE 30, 2011

WHEREAS, the proposed budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year 2010-11 was prepared and submitted to the Redevelopment Agency by the Executive Director on June 29, 2010;

NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF THE CITY OF SUNNYVALE THAT:

1. The budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year beginning on July 1, 2010, and ending on June 30, 2011, as submitted to the Redevelopment Agency by the Executive Director on June 29, 2010, is hereby approved and adopted as the budget of the Redevelopment Agency for the fiscal year 2010-11.

2. A copy of the budget hereby adopted, certified by the Secretary of the Redevelopment Agency, shall be filed with the Executive Director or designated representative. Copies of the certified budget shall be made available for the use of departments, offices and agencies of the Redevelopment Agency of the City of Sunnyvale.

Adopted by the Redevelopment Agency of the City of Sunnyvale at a regular meeting held on ______________, 2010, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST: APPROVED:

Clerk, Redevelopment Agency Chair, Redevelopment Agency
(SEAL)

APPROVED AS TO FORM AND LEGALITY:

By______________________________

David E. Kahn
Redevelopment Agency Counsel