

**Agency Meeting: June 28, 2011****SUBJECT: Adoption of the FY 2011/2012 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 2011/2012 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 2011/2012 Budget****Projected Revenues**

Total recommended revenue for FY 2011/2012 for the Agency is approximately \$13.1 million. A breakdown of the sources of revenue is highlighted below:

<b>Revenues</b>	<b>FY 2011/2012 Budget</b>
Property Tax Increment	\$9,097,199
Rents and Concessions	\$1,205,118
Addition to 1986 General Fund Loan	\$2,698,247
Interest Income	\$100,000
<b>Total</b>	<b>\$13,100,564</b>

The primary source of revenue to the Redevelopment Agency is Property Tax Increment, which is expected to total approximately \$9.1 million in FY 2011/2012. 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 2011/2012 Budget for the Redevelopment Agency reflects Property Tax Increment that is approximately \$70,000 lower than the projected FY 2010/2011 Increment. The reason for the reduction is the expected decrease in assessed valuation due to appeals of assessments by property owners in the area. While the County Assessor's Office has not made a decision on all of the appeals as of yet, the assumption that some of the appeals would be successful is incorporated into the projections for Property Tax Increment. 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 amount that the General Fund needs to loan the Redevelopment Agency to fund all expected expenditures in the fiscal year. It should be noted that the Agency will repay the earlier 1977 General Fund Loan approximately \$8.5 million in the same year.

The Agency also receives annual interest income of approximately \$100,000 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 2011/2012 are approximately \$14.6 million. Detailed below are the proposed expenditures:

<b>Expenditures</b>	<b>FY 2010/2011 Budget</b>
RDA Administration	\$346,602
Debt Service	\$1,814,894
Repayment to City – 1977 Loan	\$8,487,423
Repayment to City – Town Center	\$2,004,644
Capital Projects	\$1,500,000
Special Projects	\$421,247
Transfer Out to General Fund (In Lieu)	\$25,755
<b>Total</b>	<b>\$ 14,600,564</b>

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 \$346,602.

Debt service payments total \$1.8 million for the Central Core Redevelopment Project Tax Allocation Refunding Bonds-Series 2003 and the 1998 Parking Facility Series A Certificates of Participation.

The Repayment to City – 1977 Loan represents payment to the City of Sunnyvale in the amount of \$8.5 million in FY 2011/2012 for outstanding loans due to the City General Fund. At the close of FY 2010/2011 the Redevelopment Agency had two outstanding loans, the “1977 Loan” and the “1986 Loan,” due to the City’s General Fund of approximately \$64 million in total. 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 is expected to be approximately \$42 million.

As part of the 2010 Amended Disposition, Development, and Owner Participation Agreement (ADDOPA) signed with the court-appointed receiver for the Town Center project on August 2, 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*, since the mechanism for making the payments will be repayment of the General Fund loan. The tax increment agreement ends in FY 2025/2026.

There is one capital project budgeted in the Redevelopment Agency Fund for FY 2011/2012. The Town Center Site Investigation/Remediation of Hazmat project provides an additional \$1.5 million for the investigation of soil conditions at the Town Center and continued remediation, as necessary. The ADDOPA requires the Redevelopment Agency to split the costs of these activities. The total budget for this project, which represents the Redevelopment Agency's anticipated share, is \$9 million, of which \$7.5 million has been spent.

The FY 2011/2012 Recommended Budget for the Redevelopment Agency includes three ongoing special projects. These three projects include the Special Studies for the Redevelopment Plan Project Area (\$125,000), Downtown Development Economic Analysis (\$66,247) and Outside Counsel Services for the Redevelopment Agency (\$230,000).

The ongoing transfer of funds to the General Fund is for the services of the Agency's 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 \$23.5 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. In February 2011, the State Department of Finance released anticipated legislation to address the Governor's proposal to eliminate redevelopment agencies by July 1, 2011 (SB 77 and AB 101). It is likely that the bill language will undergo modification prior to consideration by the legislature, and if adopted, the legislation may be subject to legal challenge.

As proposed, the City is in a vulnerable position in regards to the interpretation of what debt obligations will be recognized for repayment in the proposed legislation. The bill language indicates that agreements between cities and agencies will not be recognized as enforceable contracts. The Agency's recommended budget anticipates approximately \$128 million in loan repayments to the General Fund through the term of the Redevelopment Plan, which ends in FY 2027/2028. 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 2011/2012 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. The FY 2011/2012 Redevelopment Agency Budget Adoption Resolution is included in Attachment A of this Report to the Redevelopment Agency.

Reviewed by:

Grace Leung, Treasurer, Redevelopment Agency  
Prepared by: Brice McQueen, Manager, Redevelopment Agency

Approved by:

Gary Luebbers  
Executive Director, Redevelopment Agency

**Attachments**

A. FY 2011/2012 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, 2011 TO JUNE 30, 2012**

WHEREAS, the proposed budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year 2011-12 was prepared and submitted to the Redevelopment Agency by the Executive Director on June 28, 2011;

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, 2011, and ending on June 30, 2012, as submitted to the Redevelopment Agency by the Executive Director on June 28, 2011, is hereby approved and adopted as the budget of the Redevelopment Agency for the fiscal year 2011-12.

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 \_\_\_\_\_, 2011, by the following vote:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

ATTEST:

APPROVED:

\_\_\_\_\_  
Clerk, Redevelopment Agency  
(SEAL)

\_\_\_\_\_  
Chair, Redevelopment Agency

APPROVED AS TO FORM AND LEGALITY:

By \_\_\_\_\_  
David E. Kahn  
Redevelopment Agency Counsel