

**Redevelopment Agency Meeting: June 10, 2008**

SUBJECT: Adoption of the FY 2008/2009 Budget for the Redevelopment Agency of the City of Sunnyvale

REPORT IN BRIEF

The Sunnyvale Redevelopment Agency (Agency) is required to adopt an annual budget. It is recommended that the Agency adopt the FY 2008/2009 budget as outlined in this report.

BACKGROUND

The Sunnyvale Redevelopment Agency was established under the provisions of the community redevelopment laws 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. Section 1304 of the City Charter requires the City Council to adopt the budget for the upcoming fiscal year on or before June 30.

DISCUSSION**Recommended FY 2008/2009 Budget****Projected Revenues**

Total recommended revenue for FY 2008/2009 for the Agency is approximately \$12.6 million. A breakdown of the sources of revenue is highlighted below:

Revenues	FY 2008/09 Budget
Property Tax Increment	\$5,812,531
Property Tax Increment – Town Center	\$582,946
Rents and Concessions	\$1,208,280
Addition to 1986 General Fund Loan	\$4,862,630
Interest Income	\$100,000
Total	\$12,566,387

The primary source of revenue to the Redevelopment Agency is Property Tax Increment, which is expected to total \$6.4 million in FY 2008/2009. 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 City to redevelop the project area.

The recommended FY 2008/2009 Budget for the Redevelopment Agency reflects the redevelopment of the Sunnyvale Town Center by RREEF/Sand Hill Properties. Therefore, Property Tax Increment is reflected as two line items in the Long Term Financial Plan in order to separately identify Property Tax Increment related to the Town Center redevelopment, which is projected to be \$582,946 in FY 2008/2009. Over the twenty-year Long Term Financial Plan, the Property Tax Increment for the Town Center redevelopment is projected to be \$86.3 million. Beginning in FY 2010/2011, the City will receive additional Property Tax Increment related to the Town and Country redevelopment. This revenue is expected to yield \$47.2 million over the Long Term Financial Plan.

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. The lease agreement was amended by the City and the Agency to substitute the underlying asset, the Mathilda Parking structure, with the Macy’s surface parking lot and Penney’s land with the four story parking structure. This was required in order to allow the Mathilda Parking structure to be demolished as part of the Town Center redevelopment project. 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 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 General Fund loan approximately \$5.8 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

Total recommended expenditures for the Agency for FY 2008/2009 are approximately \$14 million. Detailed below are the proposed expenditures:

Expenditures	FY 2008/09 Budget
Operating	\$356,674
Debt Service	\$1,818,221
Repayment to City – 1977 Loan	\$5,785,537
Repayment to City – Town Center Developer	\$582,946
Capital Projects	\$3,900,000
Special Projects	\$75,000
Transfer Out to Capital Projects Fund	\$1,472,658
Transfer Out to General Fund (In Lieu)	\$56,988
Total	\$ 14,048,024

Operating expenses for the Redevelopment Agency include only those activities directly related to management of the Agency. Debt service payments total \$1,818,221 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 \$5,785,537 in FY 2008/2009 for outstanding loans due to the City General Fund. At the close of FY 2006/2007 the Redevelopment Agency had two outstanding loans, the “1977 Loan” and the “1986 Loan,” due to the City’s General Fund of approximately \$56.6 million. These loans are separated because there are two different repayment

agreements. Even with all available funds, it is anticipated the RDA will not be able to fully repay the General Fund by 2028, when the tax increment revenues end. The projected total loan outstanding due to the City's General Fund at the end of the plan in November 2028 will be approximately \$44 million.

As part of the Amended and Restated Disposition, Development, and Owner Participation Agreement (ARDDOPA) signed with the Town Center developer in February 2007, 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 RDA 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. On the General Fund Long Term Financial Plan, a corresponding revenue is shown and an expense item that shows *Payment to Town Center Developer*. The tax increment agreement ends in FY 2025/2026.

Since establishment of the Redevelopment Agency in 1957, the State has enacted several laws that placed restrictions on redevelopment agencies. One of these includes capping the time period for collection of tax increment for each redevelopment project area. The original termination date for Sunnyvale's project area was November 2025. In FY 2004/2005, the plan was extended by one year per SB1044 in compensation for the Educational Revenue Augmentation Fund (ERAF) payment made to the State in FY 2003/2004. The plan was extended for another two years in FY 2005/2006 per SB1096 for compensation of the ERAF payments made in FY 2004/2005 and FY 2005/2006. The current termination date for Sunnyvale's redevelopment plan is now November 2028.

More important was the establishment of revenue limits for redevelopment agencies, referred to as property tax increment caps. The original revenue limit/increment cap for the Sunnyvale Redevelopment Agency was established at \$118 million. In FY 2005/2006 the Agency amended its Redevelopment Plan to increase the tax increment cap to \$600 million.

Projects

There is one capital project budgeted in the Redevelopment Agency Fund for FY 2008/2009. The Town Center Site Investigation/Remediation of Hazmat project provides an additional \$3.9 million for the investigation of soil conditions at the Town Center and remediation as necessary. The Town Center Amended and Restated Disposition, Development, and Owner Participation Agreement requires the Redevelopment Agency to split the costs of these activities on a tiered basis.

The FY 2008/2009 Recommended Budget for the Redevelopment Agency also 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 (\$50,000).

Transfers

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 RDA Fund, but rather are included in the General Fund and are charged as General Fund In-Lieu payments. Additionally, a transfer of approximately \$1.5 million in FY 2008/2009 is made to the Capital Projects Fund for various downtown improvements. These projects include the Downtown Wayfinding System, Murphy Avenue Enhancements and Downtown Block 2 Completion.

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. Funds in an additional reserve for Capital Projects, which accounted for funds that were programmed for downtown improvements, will be transferred to the Capital Projects Fund beginning in FY 2008/2009.

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 initial tax increment cap is reached the liability will total approximately \$20.3 million. At that point, which is estimated to be FY 2012/2013, 20% of the Tax Increment received by the Agency will begin to be set aside for housing purposes. State law allows the Agency to continue collecting tax increment after the Project time and increment limits are reached to fund its \$20.3 million housing liability. Repayments of the housing liability are anticipated to begin in FY 2028/2029 and be completed by FY 2029/2030.

The FY 2008/2009 Redevelopment Agency Budget Adoption Resolution is included in Attachment A of this Report to the Redevelopment Agency.

State Structural Budget Deficit

The State continues to experience a structural budget deficit, now estimated at \$17 billion. Though the Governor has proposed no takeaways that would

impact redevelopment agencies, the State's Legislative Analyst has recommended an alternative budget proposal that would require redevelopment agencies to contribute an additional 5% of their tax increment to schools over a five-year period. The impact to Sunnyvale would be a total of approximately \$2.7 million. The proposed revenue shift is similar to the payments made to the Educational Revenue Augmentation Fund (ERAF) from FY 2003/2004 to FY 2005/2006 which totaled \$760,828. In consideration of these payments, the Redevelopment Agency was permitted to extend the Redevelopment Plan time limit by three years. Under the current alternative proposal, it is too early in the deliberative process to predict what may be negotiated this time. The California Redevelopment Association believes that if the Legislature accepted the recommendation for a five-year payment, it will eventually become permanent. Staff continues to closely monitor all State budget proposals for possible impacts to the Sunnyvale Redevelopment Agency.

FISCAL IMPACT

Adoption of a budget for the Redevelopment Agency for FY 2008/2009 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. Adopt the budget as recommended.
2. Adopt the budget in an amount other than recommended.

RECOMMENDATION

Staff recommends Council approve Alternative 1, adopt the budget as recommended.

Reviewed by:

Mary J. Bradley, Treasurer, Redevelopment Agency
Prepared by: Pete Gonda, Senior Management Analyst

Approved by:

Amy Chan
Executive Director-Secretary, Redevelopment Agency

Attachments

A. FY 2008/2009 Redevelopment Agency Budget Adoption Resolution

RESOLUTION NO. _____

**A RESOLUTION OF THE REDEVELOPMENT AGENCY OF
THE CITY OF SUNNYVALE ADOPTING THE BUDGET OF
THE REDEVELOPMENT AGENCY FOR FISCAL YEAR
JULY 1, 2008 TO JUNE 30, 2009**

WHEREAS, the proposed budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year 2008-09 was prepared and submitted to the Redevelopment Agency by the Executive Director on June 10, 2008;

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, 2008, and ending on June 30, 2009, as submitted to the Redevelopment Agency by the Executive Director on June 10, 2008, is hereby approved and adopted as the budget of the Redevelopment Agency for the fiscal year 2008-09.

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 June 10, 2008, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

APPROVED:

Clerk, Redevelopment Agency
(SEAL)

Chair, Redevelopment Agency

APPROVED AS TO FORM AND LEGALITY:

David E. Kahn, Redevelopment Agency Counsel