

**Redevelopment Agency Meeting: June 23, 2009**

SUBJECT: Adoption of the FY 2009/2010 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 approve a resolution to adopt the FY 2009/2010 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 2009/2010 Budget****Projected Revenues**

Total recommended revenue for FY 2009/2010 for the Agency is approximately \$8.7 million. A breakdown of the sources of revenue is highlighted below:

Revenues	FY 2009/10 Budget
Property Tax Increment	\$5,989,325
Rents and Concessions	\$1,210,893
Addition to 1986 General Fund Loan	\$1,401,979
Interest Income	\$100,000
Total	\$8,702,197

The primary source of revenue to the Redevelopment Agency is Property Tax Increment, which is expected to total approximately \$6.0 million in FY 2009/2010. 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 2009/2010 Budget for the Redevelopment Agency reflects Property Tax Increment that is approximately \$840,000 lower than the projected FY 2008/2009 Increment. The reason for the reduction in Property Tax Increment is the expected decrease in assessed valuation of the property in the redevelopment area. The decrease in the assessed valuation projections stems from 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.

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. The reassessment of the Town Center property is expected to reduce the overall value of the property below the amount that triggers this part of the agreement for FY 2009/2010.

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 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 \$5.4 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 2009/2010 are approximately \$8.7 million. Detailed below are the proposed expenditures:

Expenditures	FY 2009/10 Budget
RDA Administration	\$367,786
Debt Service	\$1,817,429
Repayment to City – 1977 Loan	\$5,382,789
Capital Projects	\$1,000,000
Special Projects	\$75,000
Transfer Out to General Fund (In Lieu)	\$59,193
Total	\$ 8,702,197

Operating expenses for the Redevelopment Agency include only those activities directly related to management of the Agency. Debt service payments total \$1,817,429 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 \$5,382,789 in FY 2009/2010 for outstanding loans due to the City General Fund. At the close of FY 2007/2008 the Redevelopment Agency had two outstanding loans, the “1977 Loan” and the “1986 Loan,” due to the City’s General Fund of approximately \$58.6 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 \$17 million.

Projects

There is one capital project budgeted in the Redevelopment Agency Fund for FY 2009/2010. The Town Center Site Investigation/Remediation of Hazmat project provides an additional \$1 million for the investigation of soil conditions at the Town Center and remediation as necessary. The ARDDOPA requires the Redevelopment Agency to split the costs of these activities on a tiered basis. The total budget for this project, which represents the Redevelopment Agency’s anticipated share, is \$9 million.

The FY 2009/2010 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.

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 initial tax increment cap is reached the liability will total approximately \$22.7 million. At that point, which is estimated to be FY 2014/2015, 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 area's time and increment limits are reached to fund its \$22.7 million 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.

The FY 2009/2010 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 significant structural budget deficit. A number of solutions have been proposed, including AB1389, which authorized a one-time take of \$350 million from the State's various redevelopment agencies. This bill, which was originally approved by the Legislature in September of 2008 and would have had an approximately \$420,000 impact on the City's Redevelopment Agency, was determined to be unconstitutional by the Superior Court of California in late April of 2009. As a result, the City's Redevelopment Agency was not required to make a payment to the State. Regardless of this decision, the Agency's revenues remain at risk. Not only is the State appealing the ruling of the Superior Court, there are also strong indications that Legislators are continuing to look at redevelopment funds as a means to deal with the State's structural budget deficit. While there are few details available and no official proposals on the table, redevelopment funds

remain vulnerable, and 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 2009/2010 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: Drew Corbett, Budget Office

Approved by:

Gary Luebbers
Executive Director-Secretary, Redevelopment Agency

Attachments

- A. FY 2009/2010 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, 2009 TO JUNE 30, 2010**

WHEREAS, the proposed budget of the Redevelopment Agency of the City of Sunnyvale for the fiscal year 2009-10 was prepared and submitted to the Redevelopment Agency by the Executive Director on June 23, 2009;

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, 2009, and ending on June 30, 2010, as submitted to the Redevelopment Agency by the Executive Director on June 23, 2009, is hereby approved and adopted as the budget of the Redevelopment Agency for the fiscal year 2009-10.

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 _____, 2009, 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