REPORT TO REDEVELOPMENT AGENCY
City of Sacramento
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Sacramento Housing & Redevelopment Agency

Informational
October 6, 2009

Honorable Chair and Members of the Redevelopment Agency Board

Title: Sacramento Housing and Redevelopment Agency Strategy to Address State Mandate and Declining Redevelopment Tax Increment Revenues

Location/Council District: All City Redevelopment Project areas

Recommendation: Receive and File

Contact: LaShelle Dozier, Executive Director, 440-1319

Presenters: LaShelle Dozier, Executive Director

Department: Sacramento Housing and Redevelopment Agency

Description/Analysis

Issue: On September 1, 2009, the Sacramento Housing and Redevelopment Agency (SHRA) provided an overview to the City Redevelopment Agency Board Members about the impact of the State's revised FY2009/10 budget which included an unprecedented take of $2.05 billion in local redevelopment funds to close the State's current budget deficit. This take will have a major impact on Agency programs and operations and requires a comprehensive strategy that addresses the immediate budget impact while positioning the Agency for the future. This staff report outlines a strategy to bridge the fiscal gap caused by the State shift in local tax increment funds and the anticipated decline in tax increment revenue. The recommended strategy includes both operational and project fund reductions to make the State's Supplemental Educational Revenue Augmentation Fund (SERAF) payment.

Decline in Redevelopment Funds
In response to state budget deficits in the early 1990s, the Legislature reduced General Fund spending on education by shifting property taxes from counties, cities, special districts, and redevelopment agencies to an Education Revenue Augmentation Fund (ERAF) in each county. Faced with a historical economic downturn brought on by the national mortgage crisis, the State once again looked to local government to help balance its budget. The Agency faces an unprecedented tax increment shift of $19.6 million in FY 2009-10 and another $5 million in FY2010/11. Funds are to be deposited in the county "Supplemental

Educational Revenue Augmentation Fund" (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. Staff anticipates that the California Redevelopment Association will legally challenge the shifts in redevelopment funds. However, until a court resolves the constitutionality of shifting local redevelopment funds to balance the state budget, SHRA will have to set aside its proportional share to make the payment.

The loss in tax increment from SERAF is further exacerbated by the decline in property values following the national mortgage crisis. For 2010, the Agency anticipates an overall decline in tax increment of 13 percent due to assessed value reductions imposed by the County Assessor's office and by commercial property appeals.

SHRA Background and Fiscal Health

The joint administration of redevelopment and housing activities has provided cost savings for both the city and the county without expense to either jurisdiction's general fund. Additionally, the collaboration and joint administration has made SHRA very competitive when seeking private, federal and state funding. During good economic times and recessions SHRA has been innovative, flexible and created strategic partnerships. SHRA has worked diligently to ensure management practices are fiscally sound and that delivery of projects and services is performed at a high level.

The current financial situation is the direct result of the State shift in local tax increment. To weather this storm, SHRA must employ a balanced strategy to deal with the financial gap caused by this State mandate. The Agency will implement cost cutting measures and reallocate staffing resources to ensure that our community development objectives, housing programs and priority redevelopment projects continue to move forward despite the challenges to tax increment funding.

Measures to address the impact of the State SERAF shift are as follows:

1. 2010 Tax Increment Funding - Available 2010 tax increment will be appropriated to pay SERAF.

2. Operational Budget Reductions - The Agency will implement strategies to reduce operational costs which will result in tax increment savings. The Agency will employ measures to reduce salary and benefit costs, services and supplies, and reallocate staffing resources.

3. Project Funds - Project funds will be utilized for redevelopment areas that cannot make the SERAF payment after payment of all other obligations.

4. Housing Funds - The SERAF legislation permits the borrowing of tax increment housing funds when there are no other funds legally available to make the required payment. Currently, the Merged Downtown project area is the only area in which a borrowing for the housing funds is considered necessary.

The potential loss of resources to the State will impact delivery of projects and programs. The revenue reductions necessitate a refocusing of work on core areas of responsibility, more stringent prioritization processes in our programs and strategies, and a rethinking of how we can more efficiently work with our communities to deliver redevelopment activities. This report and accompanying attachment outline the strategy to address the revenue cuts. In the coming months we will seek further direction on the prioritization of activities through the adoption of our programming guides including redevelopment area Five Year Implementation Plans, the Community Development Block Grant (CDBG) consolidated plan's annual action plan, and other adopted programs.

Potential Negative Impact of Pending Legislation

The Agency is currently tracking AB 182, a piece of legislation intended to provide technical clean up of AB 26 4x, the legislation that created the SERAF payment obligation. In its current form, the bill would change the base year for the SERAF calculation from FY2006/07 to FY2007/08 which has the potential of increasing the Agency's SERAF payment by $5.2 million. Staff is monitoring the progress of the bill; however, it is unlikely that the outcome will be known until after the Agency's budget has been approved. As a result, Staff intends to return to the governing boards to amend the budget and discuss options should the legislation be approved and further impact the resources of the Agency.

Policy Considerations:

There is no policy consideration associated with this report.

Environmental Considerations:

This staff report provides information about government fiscal activities that do not involve commitment to any specific project that may result in a potentially significant affect on the environment and therefore does not constitute a project pursuant to CEQA Guidelines 15378(b)(4).

Rationale for Recommendation:

No action required. Report is informational only.

Financial Considerations:

State Assembly Bill AB 26 4x authorized the two year shift of $2.05 billion in tax increment funding from redevelopment agencies across California. The Agency is required to pay $19.6 million in 2010 which represents more than 30 percent of the anticipated 2010 tax increment the Agency expects to receive.

M/WBE Considerations:

The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully Submitted by: La Shelle Dozier
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Executive Director

Recommendation Approved:

Cassandra H B-Jennings
for RAY KERRIDGE
City Manager

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