

**REDEVELOPMENT AGENCY  
OF THE CITY OF OAKLAND**  
*AGENDA REPORT*

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND

2009 SEP 24 PM 5:40

TO: Office of the City Administrator  
ATTN: Dan Lindheim  
FROM: Community and Economic Development Agency  
DATE: October 6, 2009

**RE: Agency Resolution Amending The Fiscal Years 2009-11 Biennial Budget To Revise FY 2009-10 Revenue Projections And To Provide For FY 2009-10 Payments To The Supplemental Educational Revenue Augmentation Fund (SERAF), And Amending Resolution No. 01-85 C.M.S. To Provide For A Portion Of The Payments To The SERAF To Come From The Agency's Voluntary Five Percent Contribution To The Low And Moderate Income Housing Fund**

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**SUMMARY**

Redevelopment Agency staff is requesting authorization to address two issues that will negatively impact the Agency's previously approved FY 2009-10 budget. Legislative actions requested by Agency staff include the modification of the Agency Budget to recognize reductions in tax increment revenue from reductions in assessed valuation by the County and to fund possible State-mandated Supplemental Educational Revenue Augmentation Fund (SERAF) payments totaling \$41,074,866 from existing Oakland Redevelopment Agency (ORA) funds for fiscal year (FY) 2009-10.

Based on the Assessed Valuation Report from Alameda County ("County"), the Agency is projecting that revenue in FY 2009-10 will fall short of budgeted revenue by approximately \$13.1 million. There are a few redevelopment project areas with increases, but the majority are showing substantial decreases. The Agency is therefore proposing to revise its revenue and expenditures by \$13.1 million. Given the large change in revenue estimates (a ten percent reduction) already projected for FY 2009-10, a major revision will be required for FY 2010-11. This will be brought to the Agency as part of the Midcycle Budget process.

The required SERAF payment is a result of the state legislature's passage of AB 26 4x, enacted by the State Legislature in July of this year as a State budget balancing measure. The Oakland Redevelopment Agency annual SERAF commitment, as calculated by the State, is \$41,074,866 for FY 2009-10 and \$8,497,000 for FY 2010-11. The amount required for FY 2010-11 was set aside in the Agency's FY 2009-11 adopted biennial budget. Staff is proposing that the funding of the SERAF payment for FY 2009-10 come from a number of sources including tax increment revenue, fund balances, project carry-forwards, savings from prior year staff vacancies, the Low and Moderate Income Housing Fund ("LMIHF"), and other Agency revenue. Should the

Item: \_\_\_\_\_  
City Council  
October 6, 2009

Agency fail to meet this SERAF obligation the state has imposed sanctions (a so-called “death penalty”) that would severely limit the Agency’s ability to operate.

## FISCAL IMPACT

The City’s General Fund budget will be impacted by the projected reduction in gross tax increment, which will reduce the AB1290 pass-through payments to taxing entities including the City of Oakland. The reduction in the pass through payment to the City for FY 2009-10 is estimated to be \$1 million. (Discussion of the AB1290 impact on the City’s General Purpose Fund revenues will be included in the first quarter revenue and expenditure analysis, along with any necessary balancing proposals.) In addition, project and program delays and cancellations may occur as a result of the reduction of tax increment revenues and the SERAF payment. There will be several major fiscal impacts to the Redevelopment Agency related to both the loss of projected tax increment revenue and the State SERAF taking:

- 1) Reduction in appropriations for projects and programs will delay and/or eliminate current redevelopment activities throughout the City and prevent the Agency from implementing new activities until delayed projects are fully funded;
- 2) The use of fund balance for SERAF will: a) reduce the operating margins for the Agency, b) leave the Agency vulnerable to a continued decline in property values, and c) reduce the fiscal position of the Agency and make it difficult to bond in the future; and
- 3) Revenue reductions and SERAF payments from the LMIHF will substantially reduce funding available for affordable housing programs, including this year’s Notice of Funding Availability (NOFA) for housing development, the Mortgage Assistance Program for first-time homebuyers, and incremental funding for programs in the Central City East and West Oakland project areas.

The reduction in gross tax increment identified in this report is \$13,094,953 (\$133,793,010 in the Adopted Budget versus \$120,698,057 in this proposed budget amendment). This yields a reduction of \$5,641,353 in the net tax increment available for non-housing programs and \$3,274,085 in the amount available for low and moderate income housing programs. The balance of the loss in gross increment is absorbed by a reduction in AB1290 pass-through payments to taxing entities.

A Tax Increment Analysis (*Exhibit A* to the Resolution) shows the revised Budget, including gross tax increment, statutory pass-through payments to taxing entities, adopted ERAF payments, LMIHF set-asides, debt service and net tax increment. *Exhibit A* also compares the totals for the Adopted and Proposed Budgets.

Because three project areas are anticipated to have higher revenues, the cuts required from six areas with declining revenue is \$9,900,324, plus the reduction in housing funds. The following

Item: \_\_\_\_\_  
City Council  
October 6, 2009

table includes the changes in net tax increment as a result of decreased valuation by redevelopment project area.

**Table A**  
**Net Budget Revisions**

<b>Area</b>	
Central District	\$3,932,158
Coliseum	(\$2,632,725)
Acorn	\$90,459
Stanford/Adeline	(\$14,207)
Broadway/MacArthur/ San Pablo	(\$458,127)
Oakland Army Base	(\$296,400)
Central City East	(\$5,207,345)
West Oakland	(\$1,291,520)
Oak Knoll	\$236,355
Low/Mod Housing Fund	(\$3,274,085)
<b>Change in Net Available</b>	<b>(\$8,915,437)</b>

*Exhibit B* to the resolution shows the proposed reductions and modifications to project/program funding sources for the six project areas with declining revenue. These proposed reductions include a reallocation of salary savings from FY 2008-09 vacancies, cutting the Internship and Ambassador Programs, and various project and program cuts from each project area. The three areas with growth in revenue are being proposed to add this additional revenue to their fund balance to partially offset the reductions in fund balance required to fund SERAF. Although these cuts will severely affect projects funded from tax increment operations funds, the Agency will continue to fund capital projects from bond funds, as bond funds cannot be used for the SERAF payment. Already funded land acquisition, infrastructure, private and public improvement projects will continue.

Paying SERAF will require:

1. Use of \$8,497,000 budgeted to ERAF in FY 2008-09 (including \$2.5 million in housing funds), but not expended because of the successful lawsuit against the State of California challenging the FY 2008-09 ERAF
2. Use of \$8,497,000 budgeted to ERAF in FY 2009-10 (again including \$2.5 million in housing funds)
3. An additional \$3,482,864 from the FY 2009-10 LMIHF 5% voluntary set-aside; and
4. \$20,598,002 from the fund balance from the various project areas with surpluses.

Since the Agency requires a fund balance to operate prior to receipt of revenue at the end of the fiscal year, staff have estimated the current fund balance for each project area and the operating needs for FY 2010-11. Paying the \$20.6 million from the remaining fund balance will require over 80% of existing funds from the areas with available fund balance and leave the Central

Item: \_\_\_\_\_  
City Council  
October 6, 2009

District and Oak Knoll short (i.e., with negative cash balances after operating expenditures and debt service payments are made and before revenue is received in January 2011). Fortunately, both of these areas have increasing revenue and will be able to build up their depleted fund balances. The following table shows the various sources to pay for SERAF and *Exhibit C* to the resolution - Fund Balance Analysis - provides additional details regarding available fund balance.

**Table B**  
**SERAF Appropriations**

FY 2008-09 ERAF	<b>\$8,497,000</b>
FY 2009-10 ERAF Appropriation	<b>\$8,497,000</b>
Low-Mod-Income Housing Voluntary 5%	<b>\$3,482,864</b>
Area Fund Balance	
Coliseum	\$8,000,000
Acorn	\$800,000
Stanford/Adeline	\$400,000
Broadway/MacArthur/San Pablo	\$1,700,000
Oakland Army Base	\$2,300,000
Central City East	\$4,698,002
West Oakland	\$2,700,000
<b>Subtotal Fund Balance</b>	<b>\$20,598,002</b>
<b>Total</b>	<b>\$41,074,866</b>

Note: Amounts budgeted in FY 2008-09 and 2009-10 for ERAF set-asides include \$2.5 million each year from the LMIHF.

Payment of this new SERAF amount and reductions in revenue projections will substantially reduce funding available for affordable housing programs, including this year's Notice of Funding Availability (NOFA) for housing development, the Mortgage Assistance Program for first-time homebuyers, and incremental funding for programs in the Central City East and West Oakland project areas. These issues are discussed further in Key Issues and Impacts.

## **BACKGROUND**

In FY 2008-09 the California Redevelopment Association and several redevelopment agencies sued the State of California over the legality of the Educational Revenue Augmentation Fund ("ERAF") taking for FY 2008-09. In April 2009, the Sacramento County Superior Court ruled that the State raid of redevelopment funds under the 2008-09 ERAF was unconstitutional, invalidating the 2008 State budget bill to take \$350 million in redevelopment funds including \$8,497,000 from the Redevelopment Agency of the City of Oakland. The Redevelopment Agency amended the FY 2008-09 Budget on October 21, 2008 per Resolution No. 2008-0092 C.M.S., to include the ERAF payment and these funds remain available should the State of

Item: \_\_\_\_\_  
City Council  
October 6, 2009

California win an appeal of the case or revise the funding legislation to make it legal under state redevelopment law.

Funds collected statewide from Redevelopment Agencies through the SERAF ostensibly will be used to support K-12 school districts located in any redevelopment project area. Specific uses of the SERAF are governed by those eligible uses outlined in Proposition 98. Redevelopment Agency contributions to SERAF reduce the State's obligation to fund K-12 school districts by that same amount. Since the Coliseum project area is finding it difficult to use its school set-aside (because any redevelopment agency assistance to schools results in a dollar-for-dollar reduction in the statutory pass through payments to the Oakland Unified School District) staff is proposing to substitute fund balance in the Coliseum school set-aside for Coliseum operating fund balance in making the SERAF payments.

On June 30, 2009 the Redevelopment Agency approved the Fiscal Years 2009-11 Biennial Budget in Resolution No. 2009-0072 C.M.S., which included an ERAF appropriation of \$8,497,000 for FY 2009-10 and another \$8,497,000 for FY 2010-11.

On July 24, 2009 the California legislature passed multiple pieces of legislation to balance the State's budget deficit. One budgeting measure was AB 26 4x, which authorized the funding of a Supplemental Educational Revenue Augmentation Fund (SERAF) using revenue generated by redevelopment agencies from across the State. The SERAF will be in effect for two years (FY 2009-10 and FY 2010-11) and is funded at \$2.05 billion over the two year period. During the first year of the SERAF the State will gain \$1.7 billion from contributions by redevelopment agencies and \$350 million in the second year. The Oakland Redevelopment Agency mandated contribution for FY 2009-10 is \$41,074,866 and \$8,497,000 for FY 2010-11. The California Redevelopment Association is preparing to file a lawsuit challenging the SERAF requirement.

On December 11, 2001, the Redevelopment Agency Board adopted Resolution 01-85 C.M.S., which established a policy to increase the contribution of tax increment funds to the LMIHF from the State-mandated level of 20 percent of gross tax increment to 25 percent of gross increment. Since that time, the Agency has continued to make this voluntary five percent contribution in each fiscal year. The recommendations discussed in this report will require a temporary suspension of this policy.

## **KEY ISSUES AND IMPACTS**

### **SERAF**

There are limits on what funds can be used to make the SERAF payment -- Redevelopment Agency bond proceeds are not an eligible source -- and if the LMIHF (specifically the 20% mandatory set-aside) is used it must be repaid within five years. At the recommendation of the Budget Office and Redevelopment Agency staff, the Agency Board had appropriated sufficient funding, \$8,497,000 per fiscal year, to fund ERAF payments consistent with previous legislative

Item: \_\_\_\_\_  
City Council  
October 6, 2009

proposals. The Agency also has the \$8,497,000 from FY 2008-09 that was budgeted for ERAF but never paid to the County due to the court ruling.

Since these funds were already in place, Agency staff identified \$24,080,866 in the current year's budget to fund the SERAF. Two sources were identified: 1) suspending the voluntary five percent housing set-aside; and 2) using fund balance from the various project areas with surpluses. Staff therefore proposes to suspend the Oakland Redevelopment Agency Board's voluntary five percent additional affordable housing set-aside entirely for FY 2009-10 and partially for FY 2008-09 and FY 2010-11. Staff is not proposing any funds be borrowed from the mandatory LMIHF 20% set-aside so there is no requirement to repay these funds.

The Agency's ability to fund the State SERAF mandate will require disproportionate funding contributions from seven of Oakland's ten redevelopment project areas. Staff's analysis of each area's ability to pay considered each area's cash-on-hand and future monetary requirements in the development of the proposed SERAF payment strategy. Because fund balances are not directly related to revenue, which is the most equitable way to distribute the SERAF costs, staff proposes to have two project areas (Central District and Oak Knoll) repay the other areas in the future. Additionally, the SERAF legislation provides for a one year extension of redevelopment plan areas that make timely payments of SERAF.

### Agency Spending Priorities

The Agency has spending priorities based on state law and contractual obligations and must pay in full the highest priority before funding any of the next priority. These priorities include:

1. Debt service payments
2. LMIHF 20% mandatory set-aside
3. Contractual obligations (funding commitments from disposition and development agreements and owner participation agreements)
4. Personnel, projects, programs, and operations to meet state requirements and administer the Agency

### **ASSESSED VALUATION**

City and Agency staff were notified by Alameda County that due to the rapid decline in real estate values, the residential market in particular, previous assessment of property valuation had been revised to more accurately reflect current valuations. Based on the Assessed Valuation Report from Alameda County ("County"), the Agency is projecting that revenue in FY 2009-10 will fall short of budgeted revenue by approximately \$13.1 million. There are a few redevelopment project areas with increases, but the majority are showing substantial decreases. The Agency is therefore proposing to revise its revenue and expenditures by \$13.1 million.

Item: \_\_\_\_\_  
City Council  
October 6, 2009

Given the large change in revenue estimates (a ten percent reduction) already projected for FY 2009-10, a major revision will be required for FY 2010-11 as well.

The revised valuation of real estate in the Redevelopment Areas of Oakland will impact not only future years revenue to the Agency, but will also have a negative impact on the current year budget. The decrease in projected revenue as a result of decreased assessed valuation has necessitated staff develop a fiscal strategy to reflect the reduced revenue.

## **POLICY DESCRIPTION**

### **Budget Revisions**

The Agency does not have an estimate from the County on the tax increment for FY 2009-10, which normally is not available until January 2010, but based on the recent report on assessed valuations from the County staff have revised projections that require adjustments to the Agency Budget. Many project areas have substantial reductions in property values while a few have increases. These revenue changes will require automatic revisions to the statutory pass through payments to taxing entities and LMIHF set-asides (see *Exhibit A* to the resolution, Tax Increment Analysis). During Midcycle Budget deliberations the Agency will need to consider revisions to personnel costs.

These budget revisions are required because of substantial declines in property values, particularly in the Central City East, Coliseum, West Oakland and Broadway/MacArthur/San Pablo redevelopment areas. The older areas are somewhat protected by Proposition 13 limits on property appreciation for the assessed valuations, which keep property assessed values from rising rapidly and declining even more rapidly. Based on the revised estimates, several areas will see substantial declines and Central City East will see a 40% drop in tax increment. This decline in revenue requires the Agency to cut appropriations for projects and programs even more severely because fixed costs for debt service and personnel costs that cannot be easily reduced. Because of its drastic decline in revenue, Central City East will need to draw from fund balance to fund personnel costs and will not be able to spend any new tax increment on projects and programs in FY 2009-10.

### **SERAF Payment**

The calculation of Oakland's contribution is derived from the State's published formula, which calculates payments based on the State Controller's Office FY 2006-07 tax increment revenue data. These funds are to be deposited with the County of Alameda no later than May 10th of each fiscal year of the legislation's effective dates. Agency funding in the respective amounts can be provided from a variety of redevelopment funding sources including tax increment, other Agency revenue and low/moderate income housing funds. The legislation permits jurisdictions to suspend all or portions of its low/moderate income housing allocation to make payments. Suspension of a jurisdiction's affordable housing allocation must be reinstated for FY 2011-12

Item: \_\_\_\_\_  
City Council  
October 6, 2009

and contributions suspended during FY 2009-11 must be repaid by June 20, 2015. Due to restrictions placed on bond funds by the bond issuers, bond funds are ineligible for SERAF payment purposes.

Agencies that fail to submit SERAF payments by May 10<sup>th</sup> of the subject year will be deemed “out of compliance” with the State mandate and suffer the so-called “death penalty”. The death penalty prescribes the following:

- Increase housing set-aside to 25% for the remaining terms of the redevelopment area plans;
- Loss of ability to issue debt;
- Prohibits an Agency from amending, merging, or establishing new project areas;
- Loss of eminent domain authority;
- Prohibits an Agency from expending monies derived from any redevelopment source;
- Limit administrative spending in FY 2009-10 to 75% of FY 2008-09 administrative costs.

Staff’s evaluation of the impacts of the “death penalty,” in consideration of existing and potential Agency projects and financing strategies, revealed the following:

- Increase in housing set-aside to 25% – As ORA currently has a voluntary five percent set aside in addition to the 20% State mandated set-aside for affordable housing, this provision of the death penalty would not adversely impact the Agency’s fiscal or affordable housing policy, except that the voluntary five percent contribution would become a mandatory set-aside.
- Debt issuance – Loss of the Agency’s ability to issue debt would have an immediate negative impact on two project areas with commitments or plans for bonding – West Oakland and Broadway/MacArthur/San Pablo. Other project areas or individual projects may also suffer without the Agency’s ability to issue debt. Each of the ten project areas have catalyst projects that could benefit from an infusion of public funds in collaboration with private capital and may be significantly stalled or cancelled if the Agency is not prepared to support some portion of the project.

The West Oakland Project Area is one of two major project areas in Oakland that has not issued debt. Based on tax increment growth and the degree to which the area has been planned, staff would recommend a bond issuance within the next 6 – 18 months depending on the strength of the financial markets. This bonding was originally scheduled for FY 2008-09 but was delayed due to the poor bond market.

The Broadway/MacArthur/San Pablo Project Area issued debt in November 2006 and has expended or has commitments for all available funds. The Project Area also has tentative agreements in place with a development team, MacArthur Transit Community Partners, LLC, for the MacArthur Transit Village Project. The Agency’s commitment includes

Item: \_\_\_\_\_  
City Council  
October 6, 2009



financing for both the market rate and low and moderate income housing portions of the project that would require bonding in FY 2011-12 from the general redevelopment funds for Broadway/MacArthur/San Pablo and from the LMIHF. Otherwise the MacArthur Transit Village Project would require all of the LMIHF for FY 2011-12 and necessitate cancellation the NOFA for the year.

The redevelopment of the Oakland Army Base will require not only the creation of strong development partners, but financial partners as well. To meet the infrastructure requirements of the Oakland Army Base, the Agency and its partners will need to leverage public and private financing. The Agency's ability to issue debt to support infrastructure projects on the former base will be critical to the redevelopment of the base.

- Prohibited from amending, merging, or establishing new plan areas – Staff has been exploring the possibility of amending both the Central District and the Central City East Plan Areas. Doing so would extend the life of the Central District area and, more importantly, revise the tax increment cap established for the area, allowing the Agency to continue to collect the tax increment revenue needed to service debt.

Staff has begun the evaluation process to consider expansion of the boundaries of the Central City East (CCE) Project Area. This redevelopment area has multiple parcels and neighborhoods immediately adjacent to existing boundaries that could be considered blighted. To expand the boundaries to include these areas would require a process that the State would prohibit under the “death penalty”. In addition, staff is considering time extensions for the Central District, which has a plan life through June 2012.

Oakland has ten active redevelopment project areas under the authority of one legislative body, yet each area operates independently. This independence leads to duplication of effort by Agency staff and increases the cost for operations. Merger of Oakland's redevelopment areas would have certain advantages, including flexibility in project financing and increased bonding capacity. Staff has begun analyzing the benefits of a possible merger of redevelopment areas and will forward that analysis to the Agency Board within the next six to nine months.

- Loss of eminent domain authority – This would prevent the Agency from using eminent domain to acquire sites to consolidate into large tracts of land for major projects.
- Prohibited from expending monies derived from any redevelopment source – This would effectively end all projects funded from tax increment, bonds and all other redevelopment sources.
- Limit administrative spending in FY 2009-10 to 75% of FY 2008-09 administrative costs – This would reduce the City's budget in Fund 7780 (Oakland Redevelopment Agency Projects) for staffing from \$28.2 million to \$18.8 million, a 25% reduction of the \$25.0

Item: \_\_\_\_\_  
City Council  
October 6, 2009

million used for personnel costs in FY 2008-09. In addition the Agency would need to reduce its contributions to the City for Oracle, Sun Server, and other administrative costs by 25%.

In addition to the items listed above as potential impacts of the “death penalty”, staff is unsure how other State grant programs would be affected by the Agency’s non-compliance with the State’s mandated SERAF payment.

The restrictions which could be imposed on the Agency by the “death penalty” would render the Agency inoperable and ineffective; leaving the Agency only the option of payment of the SERAF should the California Redevelopment Association be unsuccessful in its proposed litigation. As long as there are any appeals outstanding or pending further actions by the state, the Agency will need to keep the SERAF appropriation encumbered with a contingent liability. If the Agency’s liability is ever released, by court order after appeals, the Agency should reinstate all of the cut projects and programs and restore fund balances to give the Agency reserves for future operations, before any other use of the released funds.

#### **Low and Moderate Income Housing Fund**

Staff proposes that the LMIHF pay a portion of the required SERAF payment. This payment would come entirely from the five percent voluntary contribution made by the Agency in excess of the State-mandated 20% low and moderate income housing set-aside – a portion of the FY 08-09 voluntary contribution, and the entire FY 09-10 voluntary contribution. For the FY 2010-11 ERAF payment, a set aside of \$2.5 million has already been included in the Agency’s adopted budget. By taking funds from the voluntary contribution only, the Agency avoids any statutory obligation to repay these funds by 2015, which may not be feasible if revenues do not significantly improve. On the other hand, if revenues do improve significantly, the Agency would have the option to restore these funds to the LMIHF as an additional voluntary contribution.

Payment of this new ERAF amount will substantially reduce new funding available for affordable housing programs, including this year’s Notice of Funding Availability (NOFA) for housing development scheduled for early 2010, the Mortgage Assistance Program for first-time homebuyers, and incremental funding for programs in the Central City East and West Oakland project areas.

Program funding will also be reduced due to a decline in assessed valuation, which reduces the LMIHF set-aside by an additional \$3.2 million, and a \$35,000 increase in staff costs approved by the City Council in the final budget adoption. (Because staff costs are paid proportionately from each project area’s Low/Moderate Income Housing funds, the reduction in revenue in Central City East and West Oakland will require a rebudgeting of staff costs away from those areas.) When combined with the ERAF transfer outlined above, the result is a total loss of nearly \$12 million in affordable housing funding.

Item: \_\_\_\_\_  
City Council  
October 6, 2009

The net result of the revenue loss, plus the new SERAF transfers (that is, taking into account that some ERAF transfers were already budgeted), is a \$6.8 million reduction in the FY 09-10 budget for affordable housing programs. This amounts to a 42 percent reduction from the \$16 million currently budgeted. If these reductions are borne proportionately between Central City East and West Oakland (where funds are restricted to those project areas) and the citywide programs, the specific impacts are as follows:

**Table C**  
**Impact To LMIHF**

Program	Adopted Budgeted	Tax Increment Loss	ERAF Payment	Staff Cost Revisions	Total Changes	Revised Budget
Citywide NOFA (not including HOME)	8,444,943	(246,942)	(2,374,614)	(396,286)	(3,017,841)	5,427,102
First-Time Homebuyers Program (MAP)	2,500,000	(73,103)	(702,969)	(117,314)	(893,387)	1,606,613
Central City East programs	3,452,649	(2,366,980)	(246,737)	398,328	(2,215,389)	1,237,260
West Oakland programs	1,609,627	(587,060)	(158,543)	80,678	(664,925)	944,702
<b>Total</b>	<b>16,007,219</b>	<b>(3,274,085)</b>	<b>(3,482,863)</b>	<b>(34,594)</b>	<b>(6,791,542)</b>	<b>9,215,677</b>

NOTE: The adopted budget includes additional NOFA funding from the City's Federal HOME grant in the amount of \$4,300,000.

It should be noted that the reduction in funding to the first-time homebuyer program is almost entirely offset by a carryforward of unspent funds from FY 2008-09. Additionally, the Agency Board recently authorized \$4.7 million in new funding for the recently approved Central City East and West Oakland homebuyer programs, yielding total funding for homebuyer assistance at approximately \$7.2 million for this year.

In order to not create too great an impact on this year's NOFA, for which as much as \$60 million in funding requests is anticipated, staff proposes that \$2,000,000 of the \$4,343,798 of accumulated but unspent housing funds in the Central City East area, which is specifically reserved for development of new affordable housing, be used instead to pay a portion of the SERAF payment. This action would increase the funding available for the citywide NOFA by an equivalent amount. If applications are received for projects in Central City East, they would still be eligible for funding from the citywide NOFA.

**SUSTAINABLE OPPORTUNITIES**

The budget reductions and SERAF payment will reduce Agency resources for projects and programs and limit its ability to promote economic growth, environmental sustainability and social equity in Oakland.

Item: \_\_\_\_\_  
 City Council  
 October 6, 2009

## **DISABILITY AND SENIOR CITIZEN ACCESS**

There are no opportunities for disability and senior access. The budget reductions and SERAF payment will reduce Agency resources for projects and programs and limit its ability to promote disability and senior access in Oakland.

## **RECOMMENDATIONS AND RATIONALE**

The Agency needs to prepare for the worst case scenario, i.e., declining revenue and a SERAF takeaway by the State. If either of these events does not take place it will be easy to reverse the actions, but if these events do take place it would be difficult to initiate the proposed budgetary revisions quickly. The Agency needs to be prepared to pay SERAF immediately after any court ruling requiring this payment. The previous ERAF ruling came days before the Agency was required to make the FY 2008-09 ERAF payment. It is anticipated that court actions will again happen just before the FY 2009-10 SERAF payment is due. Reducing appropriations will reduce, delay or eliminate projects and programs, but moving forward with projects currently approved in the Agency's spending plan that are dependant on revenue that will not be realized will place the Agency in financial jeopardy. Because of the size of the SERAF take, staff has not been able to come up with an alternative to the sources proposed. Staff therefore recommends approval of the resolution authorizing the amendments to the FY 2009-10 Agency Budget to accommodate the SERAF payment and anticipated declines in revenue.

Because of the dramatic changes in FY 2009-10 revenue projections and on going uncertainty until the County provides the Agency the FY 2009-10 computation of property tax increment in January 2010, the Agency recommends delaying any changes to the FY 2010-11 until the Midcycle Budget process. Because of the growth and decline in various areas, there will need to be a redistribution of administrative personnel costs and other non-Redevelopment/Housing staff costs. At the Midcycle, the Agency Board may also need to reconsider personnel appropriations for non-Redevelopment/Housing departments.

### **Low and Moderate Income Housing Fund**

As described above, staff proposes to reduce the budgeted transfers of tax increment funds to the LMIHF by \$3,274,085 to reflect the projected decline in tax increment revenues, and the necessary adjustments to each area's share of the housing budget for programs and staff.

Staff also recommends a total contribution to the SERAF payment by the LMIHF in the amount of \$8,527,221, which would come from totally rescinding the Agency's five percent voluntary housing contribution for the current fiscal year, and a partial rescission for FY 2008-09 and for FY 2010-11. This would include \$2,492,321 in unspent prior year funds, \$2,552,036 included in the FY 2009-10 adopted budget, \$3,482,864 in additional contributions from the five percent voluntary contribution in FY 2009-10, and \$2,607,712 in FY 2010-11. Staff further recommends that \$2,000,000 of this amount come from unspent prior year appropriations in the

Item: \_\_\_\_\_  
City Council  
October 6, 2009

Central City East area for development of new affordable housing, thereby freeing up an equivalent amount for the citywide NOFA.

**ALTERNATIVE RECOMMENDATION**

Staff did consider alternatives, but because of the huge take back approved by the state there is no easy way to fund SERAF. Given the Council policy for additional funding of affordable housing (the voluntary 5% additional LMIHF set-aside), staff considered using sources other than the LMIHF. The only other major source, besides the surplus fund balances already proposed in this report, is net tax increment. The report has already discussed the priorities for Agency spending: 1) debt payments; 2) LMIHF 20% mandatory set-aside; 3) contractual obligations (funding commitments from disposition and development agreements and owner participation agreements); and 4) personnel, projects, programs, and operations to meet state requirements and administer the Agency. This final category, commonly referred to as net tax increment, is the only place where the Agency can make cuts to fund SERAF. The difficulty in proposing further use of net tax increment for the SERAF payment is that any additional funding of SERAF with net tax increment dollars would seriously jeopardize established programs that have proven value in adding in the attraction and expansion of businesses, jobs and revenue to both the City and the Agency. Additionally, this report contains a staff recommended cut of 18.8% to existing projects and programs (from \$34,657,500 to \$28,155,657) as a result of the decrease in assessed valuation, while leaving the framework of core and effective programming in place.

**Table D  
 Change in Net Tax Increment**

	Gross Tax Increment*	AB1290 Pass Through	ERAF Set-Aside	Annual Debt Service	Low-Moderate Income		Net Available
					Mandatory Portion - 20%	Voluntary Portion - 5%	
<b>Adopted Budget</b>	\$133,793,010	(\$22,427,090)	(\$5,944,960)	(\$37,715,210)	(\$26,758,600)	(\$6,689,650)	\$34,257,500
<b>Proposed Budget</b>	\$120,698,057	(\$18,707,700)	(\$5,944,960)	(\$37,715,210)	(\$24,139,630)	(\$6,034,900)	\$28,155,657
<b>Change in Budget</b>	(\$13,094,953)	\$3,719,390	\$0	\$0	\$2,618,970	\$654,750	(\$6,101,844)

Almost all of the remaining net tax increment is already committed to the City for personnel (\$21,458,251 for the non-LMIHF costs) and operations (\$900,000 for Oracle and Sun Server, \$196,000 in bond administration costs, \$139,200 in audit costs, and other required administrative costs), with only a little remaining for replenishing fund balance in the Central District and Oak Knoll. Therefore the only alternatives to using the LMIHF voluntary 5% set-aside is to reduce personnel charged to the Agency, delay/cancel projects funded with tax increment, or further decrease the funding level of programs that have been proposed by staff. The proposed SERAF

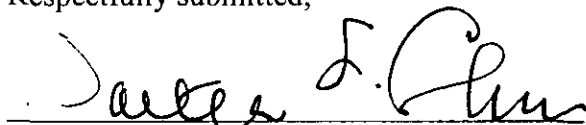
Item: \_\_\_\_\_  
 City Council  
 October 6, 2009

payment from LMIHF is \$8,527,221. In order to reduce personnel costs by this amount, the City would need to find alternative funding or eliminate approximately 50 positions (FTE) out of a total of 171.81 FTEs currently funded by ORA – this would be almost a 30 percent reduction. Drastic personnel cuts would cripple operations for the Agency. Staff therefore does not recommend this option.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff requests approval of the attached Agency resolution amending the Fiscal Years 2009-11 Biennial Budget to revise revenue projections and to provide for payments to the SERAF, and amending Resolution No. 01-85 C.M.S. to provide for a portion of the payments to the SERAF to come from the Agency's additional five percent contribution to the LMIHF.

Respectfully submitted,

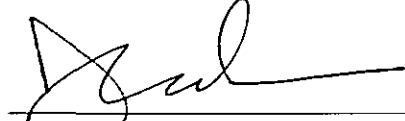


Walter S. Cohen, Director  
Community and Economic Development Agency

Reviewed by:  
Gregory D. Hunter, Deputy Director  
Economic Development and Redevelopment

Prepared by:  
Patrick Lane, Larry Gallegos Al Auletta, Jeffrey Levin and  
Sarah Schlenk

APPROVED AND FORWARDED TO THE  
CITY COUNCIL/AGENCY BOARD:



Office of the City/Agency Administrator

Item: \_\_\_\_\_  
City Council  
October 6, 2009

FILED  
OFFICE OF THE CITY CLERK  
OAKLAND  
2009 SEP 24 PM 5:40

Approved as to Form and Legality

By:   
Agency Counsel

## REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND

Resolution No. \_\_\_\_\_ C.M.S.

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**AGENCY RESOLUTION AMENDING THE FISCAL YEARS 2009-11 BIENNIAL BUDGET TO REVISE FY 2009-10 REVENUE PROJECTIONS AND TO PROVIDE FOR FY 2009-10 PAYMENTS TO THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF), AND AMENDING RESOLUTION NO. 01-85 TO PROVIDE FOR A PORTION OF THE PAYMENTS TO THE SERAF TO COME FROM THE AGENCY'S VOLUNTARY FIVE PERCENT CONTRIBUTION TO THE LOW AND MODERATE INCOME HOUSING FUND**

**WHEREAS**, the Agency adopted its biennial budget for Fiscal Years 2009-2011 on June 30, 2009, Resolution No. 2009-0072 C.M.S.; and

**WHEREAS**, the state legislature passed AB 26 4x in July of this year as a budget balancing measure, which requires redevelopment agencies, including the Redevelopment Agency of the City of Oakland, to make payments to a Supplemental Educational Revenue Augmentation Fund ("SERAF"); and

**WHEREAS**, Oakland's required contribution to SERAF would be \$41,074,866 for FY 2009-10 and \$8,497,000 for FY 2010-11; and

**WHEREAS**, on December 11, 2001, the Redevelopment Agency adopted Resolution Number 01-85 C.M.S. to provide for the deposit annually into the Low and Moderate Income Housing Fund of an additional amount equal to five percent of the gross tax increment revenues from all redevelopment project areas, if certain conditions are met; and

**WHEREAS**, payment of the entire SERAF payment from non-housing Agency funds would jeopardize the Agency's ability to carry out other priority redevelopment activities; and

**WHEREAS**, based on a recent report from the County on assessed valuations for properties in Oakland's redevelopment project areas, there are revised revenue projections that require adjustments to the Agency budget; now, therefore be it

**RESOLVED:** That the Agency hereby amends its biennial budget for Fiscal Years 2009-2011 as provided for in Exhibits A, B and C, attached to this Resolution; and be it further

**RESOLVED:** That the Redevelopment Agency hereby amends Resolution Number 01-85 C.M.S. to reduce the Agency's additional contribution of funds to the LMIHF for prior years by \$2,492,321, for FY 2009-10 by \$6,034,900 and for FY 2010-11 by \$2,607,710 in order to allow this amount to be used to pay a portion of the SERAF, should such payments be required; and be it further

**RESOLVED:** That this reduction in the LMIHF, which is authorized solely for the purpose of making the state-required SERAF payment, in no way changes the Redevelopment Agency's commitment to its policy of voluntarily contributing an additional five percent of gross tax increment to the LMIHF in subsequent years when SERAF payments are not required, and that any necessary reductions for FY 2009-10 and FY 2010-11 may be made solely for this purpose.

IN AGENCY, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2009

PASSED BY THE FOLLOWING VOTE:

AYES- BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID, AND  
CHAIRPERSON BRUNNER

NOES-

ABSENT-

ABSTENTION-

ATTEST: \_\_\_\_\_  
LaTonda Simmons  
Secretary of the Redevelopment Agency  
of the City of Oakland, California



**AGENCY RESOLUTION AMENDING THE FISCAL YEARS 2009-11 BIENNIAL BUDGET TO REVISE REVENUE PROJECTIONS AND TO PROVIDE FOR PAYMENTS TO THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF), AND AMENDING THE BUDGET AND RESOLUTION NO. 01-85 TO PROVIDE FOR A PORTION OF THE PAYMENTS TO THE SERAF TO COME FROM THE AGENCY'S ADDITIONAL FIVE PERCENT CONTRIBUTION TO THE LOW AND MODERATE INCOME HOUSING FUND**

EXHIBIT A

*(attached)*

Exhibit A  
Tax Increment Analysis

	Gross Tax Increment	AB1290 Pass Through	ERAF Set-Aside	Annual Debt Service	Mandatory Portion - 20%	Voluntary Portion - 5%	Net Available	From Adopted Budget
Central District	\$59,094,248	(\$5,327,020)	(\$2,710,260)	(\$23,660,290)	(\$11,818,850)	(\$2,954,710)	\$12,623,117	\$3,932,158
Coliseum	27,515,305	(6,871,840)	(1,251,090)	(6,844,710)	(\$5,503,060)	(\$1,375,770)	5,668,835	(2,632,725)
Acorn	1,391,929	-	(72,750)	-	(\$278,390)	(\$69,600)	971,189	90,459
Stanford/Adeline	152,433		(9,800)	(74,340)	(\$30,490)	(\$7,620)	30,183	(14,207)
Broadway/MacArthur/San Pablo	5,112,073	(1,022,420)	(249,480)	(1,152,810)	(\$1,022,420)	(\$255,600)	1,409,344	(458,127)
Oakland Army Base	5,717,500	(1,143,500)	(262,540)	-	(\$1,143,500)	(\$285,880)	2,882,080	(296,400)
Central City East	13,806,655	(2,761,330)	(976,690)	(5,122,570)	(\$2,761,330)	(\$690,330)	1,494,405	(5,207,345)
West Oakland	6,570,680	(1,314,140)	(374,270)		(\$1,314,140)	(\$328,530)	3,239,600	(1,291,520)
Oak Knoll	1,337,235	(267,450)	(38,080)		(\$267,450)	(\$66,860)	697,395	236,355
	<b>\$120,698,058</b>	<b>(\$18,707,700)</b>	<b>(\$5,944,960)</b>	<b>(\$36,854,719)</b>	<b>(\$24,139,630)</b>	<b>(\$6,034,900)</b>	<b>\$29,016,148</b>	<b>(\$5,641,352)</b>
Low/Mod (ERAF from additional 5%)			(\$2,552,040)		\$24,139,630	\$6,034,900	\$30,174,530	(\$3,273,720)
Total ERAF			<u><u>\$8,497,000</u></u>					

**AGENCY RESOLUTION AMENDING THE FISCAL YEARS 2009-11 BIENNIAL BUDGET TO REVISE REVENUE PROJECTIONS AND TO PROVIDE FOR PAYMENTS TO THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF), AND AMENDING THE BUDGET AND RESOLUTION NO. 01-85 TO PROVIDE FOR A PORTION OF THE PAYMENTS TO THE SERAF TO COME FROM THE AGENCY'S ADDITIONAL FIVE PERCENT CONTRIBUTION TO THE LOW AND MODERATE INCOME HOUSING FUND**

EXHIBIT B

*(attached)*

Exhibit B  
Budget Revisions

<b>Coliseum</b>	<b>(\$2,632,725)</b>
Reallocation of FY 2008-09 Staffing (Various)	\$606,813
Delete Coliseum Internship	\$400,000
Delete Coliseum Ambassador (2)	\$254,286
Transfer from fund balance	<u>\$1,371,626</u>
Total Reallocation	\$2,632,725
<b>Broadway/MacArthur/San Pablo</b>	<b>(\$458,127)</b>
Reallocation of FY 2008-09 Staffing (Various)	\$108,073
Delete Broadway/MacArthur Internships	\$100,000
Delete Broadway/MacArthur Ambassador	\$127,142
General O & M (P187510)	<u>\$122,912</u>
Total Reallocation	\$458,127
<b>Army Base</b>	<b>(\$296,400)</b>
Reallocation of FY 2008-09 Staffing (Various)	<u>\$449,589</u>
Allocation to Fund Balance	\$153,189
<b>Central City East</b>	<b>(\$5,207,345)</b>
Reallocation of FY 2008-09 Staffing (Various)	\$447,542
Delete Central City East Internships	\$300,000
Delete Central City East Ambassador (3)	\$381,432
General O & M (S233310)	\$650,000
Historic (S233340)	\$250,000
Assembly/Relocation (S233350)	\$300,000
CCE Eastlake/5 <sup>th</sup> Ave	\$300,000
CCE Streetlight Upgrades	\$114,000
Teen Center District 2	\$300,000
Transfer from fund balance	\$2,164,371
Total Reallocation	\$5,207,345
<b>West Oakland</b>	<b>(\$1,291,520)</b>
Reallocation of FY 2008-09 Staffing	\$193,192
Delete West Oakland Internships	\$100,000
Delete West Oakland Ambassador	\$127,142
General O & M (S233510)	<u>\$871,186</u>
Total Reallocation	\$1,291,520

**AGENCY RESOLUTION AMENDING THE FISCAL YEARS 2009-11 BIENNIAL BUDGET TO REVISE REVENUE PROJECTIONS AND TO PROVIDE FOR PAYMENTS TO THE SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF), AND AMENDING THE BUDGET AND RESOLUTION NO. 01-85 TO PROVIDE FOR A PORTION OF THE PAYMENTS TO THE SERAF TO COME FROM THE AGENCY'S ADDITIONAL FIVE PERCENT CONTRIBUTION TO THE LOW AND MODERATE INCOME HOUSING FUND**

EXHIBIT C

*(attached)*

Exhibit C  
Fund Balance Analysis

Redevelopment Area	Fund Balance 6/30/09	Transfers in FY 2009-10	Fund Balance 6/30/10	September 2010 Debt Service	2010-11 8 Months Personnel	Available Fund Balance * (D - E - F - G)	Appropriation for SERAF
Central District	\$15,550,621	(\$617,420)	\$14,933,201	(\$23,660,290)	(\$5,210,329)	(\$13,937,418)	\$0
Coliseum	\$17,994,984	(\$365,370)	\$17,629,614	(\$4,290,861)	(\$3,172,758)	\$10,165,995	\$8,500,000
Acorn	\$1,299,808	\$12,610	\$1,312,418	(\$80,874)	(\$170,823)	\$1,060,721	\$800,000
Stanford/Adeline	\$530,943	\$0	\$530,943	\$0	(\$18,405)	\$512,538	\$400,000
Broadway/MacArthur/ San Pablo	\$3,699,675	\$59,050	\$3,758,725	(\$716,706)	(\$754,688)	\$2,287,331	\$1,700,000
Oakland Army Base	\$2,487,181	\$0	\$2,487,181	\$0	(\$941,899)	\$1,545,282	\$2,300,000
Central City East	\$12,928,392	(\$651,530)	\$12,276,862	(\$3,184,379)	(\$2,670,077)	\$6,422,406	\$4,198,002
West Oakland	\$4,771,593	\$60,300	\$4,831,893	(\$13,444)	(\$1,201,283)	\$3,617,166	\$2,700,000
Oak Knoll	(\$125,229)	\$117,650	(\$7,579)		(\$232,651)	(\$240,230)	\$0
<b>Total Redevelopment *</b>	<b>\$59,137,968</b>	<b>(\$1,384,710)</b>	<b>\$57,753,258</b>	<b>(\$31,946,554)</b>	<b>(\$14,372,913)</b>	<b>\$25,611,439</b>	<b>\$20,598,002</b>

\* Total Available Fund Balance does not include the two areas with negative available balance (Central District and Oak Knoll).