

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

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OFFICE OF THE CITY CLERK
OAKLAND
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TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Walter S. Cohen, Community & Economic Development Agency
Sabrina Landreth, Budget Director
DATE: February 1, 2011
RE: **Informational Report Regarding the Governor's Proposal to Eliminate
Redevelopment; the Estimated Potential Impact to the City of Oakland and the
Oakland Redevelopment Agency; and a Summary of Actions In Other
Cities/Agencies**

SUMMARY

The Governor's proposed state budget for 2011-12 proposes an elimination of redevelopment agencies. Specifically, the Governor proposes to (1) dissolve the state's 425 redevelopment agencies and (2) transfer their revenues (primarily, over \$5 billion of annual property tax revenues) to the state, local "successor agencies" and other local entities. According to the proposal, the successor agencies would use these funds to retire redevelopment debts and contractual obligations and make other payments described below. The "successor agencies" also would shift any unspent redevelopment housing fund balances to local housing authorities to use for low-and moderate-income housing.

In 2011-12, the state would use redevelopment funds to offset \$1.7 billion of state Medi-Cal (\$840 million) and trial court (\$860 million) costs. The remainder would be used by the "successor agencies" to:

1. Pay existing redevelopment debts such as bond debt and existing contractual obligations, estimated by the administration to cost \$2.2 billion;
2. Allocate \$1.1 billion to schools and other local agencies pursuant to current laws that require redevelopment agencies to "pass through" some of their funds to affected local agencies; and
3. Distribute \$210 million to cities, counties, and special districts in proportion to these agencies' current shares of the property tax.

Beginning in 2012-13, any property tax revenues remaining after the successor agencies pay redevelopment debt would be distributed to other local governments in the county. Distributions of these revenues generally would follow provisions in existing law.

In addition, the Governor indicates that he will support a constitutional amendment to allow local voters to approve tax increases and general obligation bonds for redevelopment purposes by a 55 percent majority. This constitutional amendment would go to voters in 2012.

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As of the writing of this report, there is no bill language that has been submitted, but legislation must be to the Legislature by February 1st in order to meet the Governor's proposed budget timeline. An oral report of the bill language (if available) will be provided at the February 1st Council meeting. There has been some discussion of a possible urgency clause in the legislation that would make the bill effective March 1, 2011, which will require a 2/3 vote of the Legislature. The language would allow redevelopment agencies to continue receiving tax increment revenue until the end of FY 2010-11, but no additional commitments would be allowed after March 1st.

Because actual legislation is still being drafted, there are many questions that remain about the intent and implementation of the proposal. For example, how will bond proceeds be administered? Will the "successor agency" continue to implement projects with the bond proceeds or simply defease the bonds? How will the administrative costs of the "successor agency" be funded? What will happen to the current tax increment funded projects and programs that are not complete and have budget balances as of June 30, 2011? What will happen with the redevelopment agency's operating fund balances, other than housing? What will happen to the redevelopment agency's real property assets? What will be the composition and legal authority of the "successor agencies"? What contractual obligations of redevelopment agencies will be maintained?

Answers to any of the above questions, if available, will be provided orally at the February 1st Council meeting.

FISCAL IMPACT

The Oakland Redevelopment Agency (Agency) projects to receive approximately \$110 million in tax increment revenue in FY 2011-12. Agency annual debt payments total approximately \$48 million, which leaves a balance of approximately \$62 million in tax increment.

The Agency's current use of the \$62 million is broken out as follows:

- \$27 million for City personnel that support the redevelopment program, including \$2.5 million in central service overhead charges that support the General Fund. Under the Governor's proposal, the City would need to cut the staff currently charging to Redevelopment, 171.24 FTE in 12 agencies throughout the City of Oakland. This includes staff implementing projects and programs in CEDA, Public Works and Police, as well as staff in all the general departments that administer the City such as the Mayor, Council, Administrator, Clerk, Attorney and Finance;

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- \$13.5 million for Low/Mod-Housing set-aside programs and projects, net of debt and personnel costs;
- \$15.5 million for AB 1290 pass-throughs. The City receives approximately \$5 million of AB 1290 pass-through, while the remainder goes to other entities such as the County. The Governor's proposal maintains the AB 1290 pass-throughs.
- \$6 million for Operations & Maintenance, including contracts for the Agency's fiscal systems (Oracle and Sun Server), annual audits, property tax analysis, as well as projects and programs funded directly from tax increment, including all the activity in West Oakland where the Agency has not yet bonded.

The total gross loss to Oakland (Agency and City) under the proposal would be approximately \$47 million in the first year of the Governor's proposal (2011-12). The estimated amount the City would receive from the "return" of the property tax to the City in the first year would be nominal, approximately \$1 to \$2 million. The City would continue to receive the \$5 million in pass-through revenue in 2011-12. In 2011-12, the estimated total net loss to Oakland would be approximately \$40 million. Of note, the revenue to the City would be offset by the lost contributions by the Agency to Central Service Overhead (CSO).

In each year thereafter, the estimated property tax revenue that would be returned to the City (net of CSO) could be around \$18 million, for a net loss of approximately \$24 million per year after the first year.

OTHER CITIES

Since the Governor's proposal was released, a number of cities and redevelopment agencies have authorized contractual obligations and taken other actions in an attempt to protect redevelopment program activities, as well as current or future tax increment funds. For instance, the City of Los Angeles and its redevelopment agency authorized a cooperation agreement between the City and the Agency committing the Agency to fund a list of specific City public improvement projects totaling just under \$1 billion. The activities approved by Los Angeles include: 1) public improvements to streetscapes, facilities and parks; 2) real estate development project for industrial, commercial and affordable housing; 3) business assistance - façade and tenant improvement loans and grants, assistance to business improvement districts (BID); 4) community facilities - museum, community and senior centers, theater, charter school, transitional shelter, etc.; and 5) planning activities for business attraction, BID adoption, and green building retrofits. Los Angeles committed a combination of available resources and projected net tax increment from each of the active redevelopment projects areas from FY 2011-12 through FY 2015-16. Los Angeles also noted that anticipated developments within each of the redevelopment project areas were evaluated as part of the redevelopment plan adoption

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process pursuant to the provisions of California Environmental Quality Act (CEQA), but that more specific CEQA analysis was premature.

Staff is currently reviewing the legislation and proposals from several other cities, including Emeryville, San Diego and Fremont. These actions include approving Cooperation Agreements with cities and issuing new bond debt.

Since the state legislation implementing the budget proposal has not been released as of the writing of this report, it is unknown whether these actions will be effective in protecting redevelopment agency funds. It is unclear whether the legislation will actually recognize contracts between agencies and cities as grandfathered contractual obligations. There are other potential legal issues with these actions, such as entering into commitments to fund projects prior to CEQA analysis of those projects.

KEY ISSUES AND IMPACTS

The impact to Oakland from eliminating redevelopment agencies would be severe. For example:

- **Transportation-oriented Development.** The Agency will not be able to support sustainable development by implementing planned and on-going transit-oriented developments in the Central District, Broadway/MacArthur, West Oakland and Coliseum Redevelopment Areas, which are critical for the implementation of SB 375.
- **Public Facilities.** Termination of funding for public facility improvements to parks, libraries, cultural facilities, parking garages, the Scotlan Convention Center and recreational facilities.
- **Streetscape Improvements.** Termination of funding for streetscape improvements will remove a significant tool for improving the City's aging infrastructure and jeopardize outside funding commitments that have been made for these projects (ACTIA).
- **Public Safety.** The Agency will be unable to assist in providing enhanced security measures in retail, residential and industrial areas.
- **Oakland Army Base.** Termination of the Oakland Army Base redevelopment project, which will impact the Port of Oakland's competitiveness with other ports on the West Coast and the Agency's ability to support by providing incubator space for new technologies.

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- **Business Assistance.** Termination of programs assisting businesses, such as the small business loan programs, and the tenant and façade improvement programs will likely stifle the recent renaissance of downtown entertainment venues and restaurants.
- **Broadway Shuttle.** The Agency will no longer support the new Broadway Shuttle, which could lead to the elimination of this new service.
- **Compliance with Existing Development Agreements.** The Agency would no longer be able to monitor on-going development agreements for the City Center Project, the Key System Building Rehabilitation project, and various other projects throughout the redevelopment areas.
- **City Planning Efforts.** The Agency will not be able to support planning efforts, such as the Lake Merritt Station Area Specific Plan and the Broadway/Valdez Area Specific Plan.
- **Victory Court.** The Agency will not be able to support any City efforts to retain the Oakland A's.
- **Economic Development.** Since Agency funds are a primary source for improving City infrastructure, providing support to local businesses and offering incentives to developer to invest in Oakland, the elimination of the Agency will take away the City's most potent economic development tool, and negatively impact Oakland's efforts to promote growth after the greatest economic downturn since the Great Recession.
- **Public Participation in Economic Development.** The abolition of the Agency will eliminate Project Area Committees, which are important vehicles for public participation in the City's economic development activities.
- **City Employment Programs.** The elimination of Agency programs will significantly reduce the number of projects that require compliance with the City's employment programs, thus taking away an important source of local job creation.
- **Public Art.** The abolition of the Agency would eliminate its Public Art Program which authorizes the allocation of 1.5 percent of Agency capital construction project funding for the commissioning of public artwork. This would greatly diminish the City's ability to support local artists and enhance public spaces with public art.
- **Properties held for Resale.** The Agency holds significant properties for resale. These range from vacant properties to active public facilities which often do not generate significant cash flow. Since the City would have to take over maintenance and operation

of these properties with no funding support from the Agency, it would put further strain on the City's General Fund.

- **Brownfields.** The Agency is a significant actor in the clean-up of contaminated properties throughout its 10 redevelopment areas. The Polanco Act and Agency funding have enabled the City to make progress in turning Brownfields into Greenfields. The elimination of the Agency would present a major set-back in these efforts.
- **Historic Preservation.** The Agency has been a significant financial supporter of historic preservation efforts throughout the City. Without Agency participation in the restoration of the City's historic buildings, these will deteriorate further and provide a disincentive for private investment.
- **Housing.** Twenty-five percent of the gross tax increment received by the Agency is deposited into the Low and Moderate Income Housing Fund. This is by far the City's largest source of funding for affordable housing. Over the past 10 years, the Agency has allocated over \$200 million to affordable housing activities, with 1,900 units of housing completed and 1,200 in the pipeline, as well as assisting 500 hundred low income families to become homeowners. If redevelopment agencies are abolished, the City would lose this funding, with the following consequences: termination of the City's Mortgage Assistance Program (MAP) for first-time homebuyers; termination of programs for housing rehabilitation in the Central City East and West Oakland redevelopment areas; reduction of annual Notice of Funding Availability (NOFA) funds for affordable housing by over 75 percent; the Agency might not be able to meet its obligation to fund the development of affordable housing at the MacArthur BART transit-oriented development; the City/Agency might be required to repay State grants for Infill Infrastructure and Transit Oriented Development if the required affordable housing units cannot be built. In addition, since Low/Mod funds are the principal funding source for development and preservation of affordable housing, this could lead to the collapse of the affordable housing industry. Not only would new production be curtailed, but without revenue from developer fees earned on new projects, nonprofits could be unable to maintain solvency and would be unable to perform asset and property management functions.

NEXT STEPS

Based on the tight timeline, it is not possible to issue additional redevelopment bonds before March 1st; however, staff is looking into bonding capacity for Low/Mod in order to fund the housing obligation at MacArthur Transit Village and possibly Oak to Ninth. An analysis is underway by the City's consultant (HdL) to estimate future tax increment growth to determine


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bonding capacity for all project areas, although it is expected that other redevelopment areas have very little, if any, bonding capacity left. In addition, staff is examining potential amendments to the current Cooperation Agreement between the City and the Agency in an attempt to protect redevelopment program activities and current or future tax increment funds, and any proposed changes will be brought forward to Council on an urgency basis for approval.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council receive and file this report.

Respectfully submitted,



Walter S. Cohen

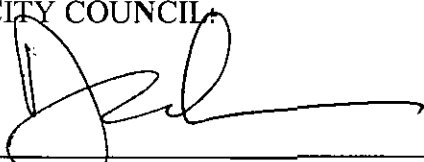
Community & Economic Development Agency



Sabrina Landreth

Budget Director

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