REDEVELOPMENT AGENCY
OF THE CITY OF OAKLAND

AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2010 MAR 25 PM 3:48

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Community and Economic Development Agency
DATE: April 1, 2010

RE: **A Report and Recommendations for Addressing Anticipated Oakland Redevelopment Agency Deficits for Fiscal Year 2010-2011**

SUMMARY

The purpose of this report is to provide estimates for the FY 2010-2011 operating budget and propose balancing measures for consideration by the Agency Board.

Redevelopment Agency staff is anticipating a deficit for Fiscal Year 2010-2011 in the amount of $10.6 million ($9.0 after proposed personnel cuts) due to a steep decline in tax increment revenue. In this report, staff describes the causes of the anticipated deficit and proposes balancing measures for Agency Board consideration.

Based on the Assessed Valuation Report from Alameda County for FY 2009-2010, Agency staff is projecting that revenue in FY 2010-2011 from gross tax increment will fall short of budgeted revenue by approximately $18.9 million. This shortfall is caused by the continuing decline of property tax assessments. Property tax assessments for the Agency for FY 2010-2011 declined by approximately 14%, as evidenced by the unprecedented and rapid decline in property values over the past two years.

Although tax increment declined by $18.9 million, the deficit is projected to be $10.6 million. The difference is explained by the fact that certain payments made from tax increment revenues, such as AB1290 pass through payments and set asides to the Low Moderate Income Housing Fund (LMIHF), are calculated using percentages. As the amount of tax increment revenue increases or decreases, these calculated payments will follow suit. Other payments, such as the payment to the Supplemental Educational Revenue Augmentation Fund (SERAF), personnel costs, and operating expenditures do not automatically change with fluctuations in tax increment revenue. Information of the sources and uses of tax increment revenue is provided in ***Attachment A*** to this staff report.

Staff is proposing the following measures to correct the deficit for FY 2010-2011:

- Reductions in personnel costs ($1.6 million)
- Reductions in operating costs ($3.8 million) and carryforwards ($4.1 million)
- Use of reserves ($1.5 million)

More information about these proposed cuts is presented below under the "Fiscal Impact" section along with the discussion on ***Attachment A***.

Staff is also recommending that the process for developing budgets and identifying the optimal uses of bond proceeds be revamped, so these issues can be minimized in future years.

FISCAL IMPACT

Both the City and Redevelopment Agency will be adversely impacted by the steep decline in tax increment revenue. This decrease in revenue, coupled with the required payment to the SERAF, will limit the Agency's ability to fully fund projects and programs to address redevelopment goals as stated in the 5-year implementation plans submitted to the State of California.

The City's General Purpose Fund will be impacted by the projected reduction in gross tax increment because the AB1290 pass-through payments to taxing entities, including the City, will be reduced. The reduction in the pass through payment to the City for FY 2010-2011 is estimated to be $1.5 million.

As for the Agency, project and program rescheduling and cancellations may occur as a result of the reduction of tax increment revenues and reduction of staffing as proposed by the Agency. Major fiscal impacts to the Agency related to both the loss of projected tax increment revenue and the SERAF payment include the following:

1) Reduction in appropriations for projects and programs will result in rescheduling or eliminating current redevelopment activities and will affect the Agency's capacity to implement new activities until priority projects are fully funded.

2) The use of fund balance will reduce the operating margins for the Agency; leave the Agency vulnerable to a continued decline in property values; and weaken the fiscal position of the Agency and make it more difficult and expensive to bond in the future.

3) Revenue reductions and SERAF payments from the LMIHF will substantially reduce funding available for affordable housing programs, including the Notice of Funding Availability (NOFA) for housing development, and the Mortgage Assistance Program for first-time homebuyers.

The reduction in gross tax increment identified by this report is $18,891,624 ($138,004,310 in the Adopted Budget compared to $119,112,686 in this proposed budget amendment). The following table compares gross tax increment by project area as originally budgeted to current projections.

Table A – Gross Tax Increment Estimates – FY 2010-2011

	Gross Tax Increment			
Project Area	**Adopted Budget**	**Revised Projections**	**Addition/ (Reduction) in Tax Increment**	**% Increase/ (Decrease)**
Central District	$ 54,339,200	$ 56,137,004	$ 1,797,804	3.3%
Coliseum	35,876,350	28,508,440	(7,367,910)	-20.5%
Acorn	1,309,430	1,395,041	85,611	6.5%
Stanford/Adeline	174,140	-	(174,140)	-100.0%
Oak Center	-	-	-	
Pablo	6,212,540	5,138,496	(1,074,044)	-17.3%
Oakland Army Base	6,381,520	5,708,356	(673,164)	-10.5%
Central City East	23,740,050	14,248,741	(9,491,309)	-40.0%
West Oakland	9,052,690	6,632,652	(2,420,038)	-26.7%
Oak Knoll	918,390	1,343,956	425,566	46.3%
Change in Net Available	$ 138,004,310	$ 119,112,686	$ (18,891,624)	-13.7%

Attachment A to this staff report shows an analysis of the sources and uses of funding for FY 2010-2011. The table below is a summary overview of the sources and uses of funds, as presented in ***Attachment A***.

Table B – Sources and Uses of Tax Increment Funding

Revised gross tax increment	$ 119,112,686
Less mandatory payments	
AB 1290 set asides	(18,553,430)
SERAF	(5,676,802)
Annual debt service	(39,039,900)
20% set aside	(23,822,540)
5% set aside	(5,955,630)
Personnel, including reductions of $1.6 million	(20,406,233)
Operation and maintenance as per original budget	(16,796,590)
Net available before other income and proposed reductions	(11,138,439)
Additional income	
Low Mod repayment	350,000
Interest income	1,627,730
Other revenue	200,000
Net deficit	**$ (8,960,709)**
Balancing measures	
Operations and maintenance	$ 3,802,260
Carryforwards	4,120,038
Use of fund balance	1,455,981
Surplus in Oak Knoll	(417,570)
	$ 8,960,709

The first page of the Attachment (Page 1 of 2) includes the revised estimates for gross tax increment; mandatory payments (such as AB1290 pass-through payments to taxing entities, required SERAF payments, annual debt service, and mandatory 20% and voluntary 5% LMIHF set-asides); revised projections for personnel costs, as described below and in ***Attachment B***; and currently budgeted expenditures. The amounts shown for personnel costs are net of the projected savings of $1.6 million, as described in ***Attachment B***. The final column on this page, entitled "Net Available," shows the net amount available after mandatory payments, personnel costs and operating costs are deducted from the tax increment revenue. The "Net Available" column shows that staff is projecting an operating deficit of $11.1 million, before taking into consideration other revenue sources and balancing measures.

The second page of ***Attachment A*** (Page 2 of 2) begins with the "Net Available" from the previous page. As noted above, the "Net Available" includes proposed personnel cuts of $1.6 million. Additional income – a repayment from the LMIHF, interest income, and other income - will further reduce the operating deficit to $8.96 million. Staff proposes that this deficit be addressed first by reductions in operating costs ($3.8 million) and only as a last resort, carryforwards ($4.1 million) and the use of reserves ($1.5 million).

The proposed cuts in operating costs and carryforwards include reductions in contract services, such as private security patrol, and program and project development. The funding for a streetscape project, which was included in this category, will be shifted from tax increment to bond proceeds.

Attachment B shows projected personnel savings by department. The net projected savings are $1.6 million. These savings are included in the Personnel costs as shown in ***Attachment A*** (Page 1 of 2). These savings are attributable to personnel cuts ($1.2 million), an increase in overhead charges for the marketing division ($200,000), and reductions in the fringe rate ($600,000). The overhead charge for Cultural Arts and Marketing was added in the amount of $200,020 because the departmental overhead for this department was inadvertently overlooked when it was transferred from the Mayor's Office to CEDA. The Attachment shows that personnel cuts are proposed for City Council, Public Works and CEDA. Other departments are not proposing reductions in personnel.

To balance its deficit, the Agency proposes shifting the funding of a $3.4 million streetscape project from tax increment funds to bond funds. Bond proceeds cannot be used for the SERAF payment. Currently budgeted projects such as private and public improvement projects will continue, but land acquisition and infrastructure will need to be delayed.

The SERAF payment is required by the state legislature's passage of AB 26 4x in July, 2009 as a State budget balancing measure. The Oakland Redevelopment Agency's annual SERAF commitment, as calculated by the State, is $8,497,000 for FY 2010-2011. 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 2010-2011 and a reduction in the amount of $2,607,710 to the 5% voluntary set aside to LMIHF. Based on revised tax increment projections, the voluntary 5% set aside amount is $5,955,630. The portion of the 5% voluntary set aside that will be needed to fund the SERAF payment is now projected to be $2,820,198. The balance of the 5% voluntary payment, $3,135,432, will be transferred to the LMIHF. Should the 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.

As noted above, the SERAF payment and reductions in revenue projections will substantially reduce funding for affordable housing programs, the NOFA for housing development, and the Mortgage Assistance Program for first-time homebuyers.

BACKGROUND

Decline in Tax Increment Revenue

Based on the Assessed Valuation Report from Alameda County for FY 2009-2010, Agency staff is projecting that revenue in FY 2010-2011 from gross tax increment will fall short of budgeted revenue by approximately $18.9 million. This shortfall is caused by the continuing decline of property tax assessments. Property tax assessments for the Agency for FY 2010-2011 declined by approximately 14%, as evidenced by the unprecedented and rapid decline in property values over the past two years.

Although tax increment declined by $18.9 million, the deficit is projected to be $10.6 million. The difference is explained by the fact that certain payments made from tax increment revenues, such as AB1290 pass through payments and set asides to the Low Moderate Income Housing Fund (LMIHF), are calculated using percentages. As the amount of tax increment revenue increases or decreases, these calculated payments will follow suit. Other payments, such as the payment to the SERAF, personnel costs, and operating expenditures do not automatically change with fluctuations in tax increment revenue. Information of the sources and uses of tax increment revenue is provided in ***Attachment A*** to this staff report.

SERAF Payments

On July 24, 2009 the California legislature passed multiple pieces of legislation in an attempt 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 2009-2010 and FY 2010-2011) 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's mandated contribution for FY 2009-2010 is $41,074,866 and $8,497,000 for FY 2010-2011. The California Redevelopment Association is preparing to file a lawsuit challenging the SERAF requirement.

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 2009-2010 and another $8,497,000 for FY 2010-2011.

The Agency budget for fiscal year 2009-2010 was amended by the Agency Board on October 6, 2009 to fund the balance of the SERAF payment for FY 2009-2010.

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% of gross tax increment to 25% of gross increment. For fiscal years through 2008-2009, the Agency continued to make this voluntary five percent contribution. On October 6, 2009, the Agency Board approved a temporary suspension of this policy for FY 2009-2010 in order to provide funding for that year's SERAF payment. Agency staff is now recommending that the policy again be suspended for FY 2010-2011 to help provide funding for the current SERAF payment.

KEY ISSUES AND IMPACTS

Impacts of Proposed Cuts

The City's General Purpose Fund will be impacted by the projected reduction in gross tax increment because the AB1290 pass-through payments to taxing entities, including the City, will be reduced. The reduction in the pass through payment to the City for FY 2010-2011 is estimated to be $1.5 million.

As for the Agency, project and program reschedling and cancellations may occur as a result of the reduction of tax increment revenues and reductions of staffing as proposed by the Agency. Major fiscal impacts to the Agency related to both the loss of projected tax increment revenue and the SERAF payment include the following:

1) Reduction in appropriations for projects and programs will result in rescheduling or eliminating current redevelopment activities and will affect the Agency's capacity to implement new activities until priority projects are fully funded.

2) The use of fund balance will reduce the operating margins for the Agency; leave the Agency vulnerable to a continued decline in property values; and weaken the fiscal position of the Agency and make it more difficult and expensive to bond in the future.

3) Revenue reductions and SERAF payments from the LMIHF will substantially reduce funding available for affordable housing programs, including the Notice of Funding Availability (NOFA) for housing development, and the Mortgage Assistance Program for first-time homebuyers.

Suspension of the Voluntary 5% Set Aside

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 mandatory 20% LMIHF is used it must be repaid within five years.

The Agency Board has appropriated sufficient funding in the amount of $8,497,000 for the SERAF payments for FY 2010-2011. The source of funding included suspending the voluntary five percent housing set-aside and using fund balance from the various project areas with surpluses.

On October 6, 2009, the Agency Board approved a Resolution reducing the amount of the voluntary 5% set aside for FY 2010-2011 by $2,607,710. Staff estimates that the amount of the voluntary 5% set aside reduction should be adjusted to $2,820,198. The balance of the 5% voluntary payment, $3,135,432, will be transferred to the LMIHF.

As noted above, reductions in the voluntary 5% set aside will substantially reduce funding for affordable housing programs, the NOFA for housing development, and the Mortgage Assistance Program for first-time homebuyers.

Agency Spending Priorities – "Back to Basics"

Agency staff recommends that the process for developing budgets and identifying the optimal uses of bond proceeds be revamped. Agency staff should make recommendations to the Board as to how money could best be used in City departments and how bond proceeds can be utilized to maximum advantage. Investment in projects that generate economic growth are key to the Agency's success in achieving its redevelopment objectives.

The current economic environment painfully illustrates the need to examine the Agency's approach to setting priorities, budgeting, and evaluating the effectiveness of funded programs. Identifying how the objectives of redevelopment – eradication of blight, economic stimulation, revitalization, generation of tax increment, creation of jobs, and economic equality and stability – can best be achieved within the constraints of available funds will guide policy makers in setting short and long-term goals and thus set priorities for how tax increment revenue should be used.

Agency staff has budgeting and spending priorities that are ranked below. Items 1 – 4 are mandated by state law and contractual obligations and must be paid in full before funding the next item. Funds remaining after making mandatory payments are used to invest in the Agency's core activities, which include elimination of blight, economic stimulation, and revitalization. These priorities include:

1. AB1290 pass through payments to taxing entities within the redevelopment areas
2. LMIHF 20% mandatory set-aside
3. Debt service payments
4. Contractual obligations (funding commitments from disposition and development agreements and owner participation agreements)
5. Projects, programs, and operations to meet state requirements and administer the Agency
6. Personnel

Several City departments request funding from the Agency Board. In order for the Board to determine that the funding is appropriate, effective, and most importantly, aligned with established priorities, Agency staff should take an active role in developing the budget and monitoring how funds are spent. Departments need to track activities funded by tax increment and be held accountable to performance measures.

As for the use of bond proceeds, emphasis should be given to projects that will result in economic growth, as evidenced by tax increment expansion, job creation, revitalization, and sales tax generation. Using bond proceeds for private development can result in this economic growth.

Revamping the budgeting process and developing a policy on the use of bond proceeds will help the City achieve its redevelopment goals and make future bond offerings more attractive to investors. The Agency's ability to issue bonds at affordable rates will be enhanced.

POLICY DESCRIPTION

Low and Moderate Income Housing Fund

Staff proposes that the LMIHF pay a portion of the required SERAF payment. This payment would come from the voluntary 5% set aside contribution. For FY 2009-2010, the entire amount of the voluntary 5% set aside was appropriated for the SERAF payment. For FY 2010-2011, Agency staff is recommending that $2,820,198 of the voluntary $5,955,630 be used to fund the payment. 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.

Using a portion of the voluntary set aside to make the SERAF payment will substantially reduce new funding available for affordable housing programs, including the NOFA, and the Mortgage Assistance Program for first-time homebuyers.

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.

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.

RECOMMENDATION(S) AND RATIONALE

The Agency needs to address the anticipated deficit caused by declining tax increment revenue with a combination of operational cuts, use of reserves, and a temporary suspension of a portion of the voluntary 5% set aside to the LMIHF.

As noted above, staff is recommending personnel cuts of approximately $1.6 million, as proposed the CEDA, the City Council and the Public Works Agency. Operating costs and carryforwards are recommended for cuts of approximately $3.8 million and $4.1 million, respectively. Operating costs and carryforwards will be reduced with a combination of reductions and redirection of funding from tax increment to the use of bond proceeds. The amount of operating costs and carryforwards that will be backfilled with bond proceeds is approximately $3.4 million. A streetscape project will be funded from bond proceeds. In addition, staff is recommending the use of reserves in the amount of $1.5 million to correct the deficit.

On October 6, 2009, the Agency Board approved a Resolution reducing the amount of the voluntary 5% set aside for FY 2010-2011 by $2,607,710. Staff estimates that the amount of the voluntary 5% set aside reduction should be adjusted to $2,820,198.

Staff will take the direction provided by the Agency Board and return to the Board on April 29, 2010 with a request to approve a resolution amending the FY 2010-2011 budget to revise revenue projections, adjust expenditures, and to amend the amount of the 5% voluntary set aside that will be suspended.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the Agency Board review the information provided in this report and provide direction on how to correct the projected deficit for FY 2010-2011. Staff will take the direction provided and return to the Agency Board on April 29, 2010 with a request to approve a resolution amending the FY 2010-2011 budget.

Respectfully submitted,

Walter S. Cohen, Director
Community and Economic Development Agency

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

Prepared by:
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APPROVED AND FORWARDED TO THE
CITY COUNCIL/AGENCY BOARD:

Office of the City/Agency Administrator

Use of Tax Increment Revenue for Mandated Transfers, Set-Asides and Debt Payments By Project Area
Fiscal Year 2010-11

	REVISED PROJECTIONS Gross Tax Increment	AB1290 Set-Aside	SERAF Set-Aside	Annual Debt Service	Low-Moderate Income: Mandatory 20%	Low-Moderate Income: Voluntary Portion - 5%	Personnel (Attachment B)	O&M Allocation **	Net Available [A]
Central District	$ 56,137,004	$ (4,805,253)	$ (2,759,509)	$ (25,838,930)	$ (11,227,400)	$ (2,806,850)	$ (8,194,883)	$ (2,603,671)	$ (2,099,491)
Coliseum	28,508,440	(7,133,737)	(1,172,966)	(6,846,730)	(5,701,690)	(1,425,420)	(4,618,149)	(4,003,476)	(2,393,728)
Acorn	1,395,041	0	(113,369)	0	(279,010)	(69,750)	(392,935)	(706,276)	(166,299)
Stanford/Adeline	0	0	0	(77,070)	0	0	0	0	(77,070)
Oak Center	0	0	0	0	0	0	0		0
Broadway/MacArthur/ San Pablo	5,138,496	(1,027,700)	(243,773)	(1,153,410)	(1,027,700)	(256,920)	(1,055,667)	(984,963)	(611,637) 0
Oakland Army Base	5,708,356	(1,141,670)	(340,190)	0	(1,141,670)	(285,420)	(1,472,097)	(1,952,258)	(624,949)
Central City East	14,248,741	(2,849,750)	(571,627)	(5,123,760)	(2,849,750)	(712,440)	(2,891,954)	(3,630,910)	(4,381,450)
West Oakland	6,632,652	(1,326,530)	(395,274)	0	(1,326,530)	(331,630)	(1,548,615)	(2,905,457)	(1,201,384)
Oak Knoll	1,343,956	(268,790)	(80,093)	0	(268,790)	(67,200)	(231,933)	(9,580)	417,570
	$ 119,112,686	$ (18,553,430)	$ (5,676,802)	$ (39,039,900)	$ (23,822,540)	$ (5,955,630)	(20,406,233)	$ (16,796,591)	$ (11,138,439)
Low/Mod							(6,681,049)		
							(27,087,282)		
Low/Mod (from additional 5%)			($2,820,198)						
Total SERAF			$8,497,000						

** - includes County administration fee

[A] Net available tax increment represents revenue that is available for personnel services and operations and maintenance appropriations after all mandatory transfers, set-asides and debt payments have been covered.

Use of Tax Increment Revenue for Mandated Transfers, Set-Asides and Debt Payments By Project Area Fiscal Year 2010-11

		Additional Income				Balancing Measures			Operating Fund	
	Net Available [A]	Low Mod Repayment	Interest Income	Other Revenue	Adjusted Net Available	O & M	Carry forwards	Fund Balance	Estimated Available Funds @June-30-2010	Estimated Available Funds @June-30-2011
Central District	$ (2,099,491)	$ 350,000	$ 93,510	$ 200,000	$ (1,455,981)			$ 1,455,981	$ 19,819,915	$ 18,363,934
Coliseum	(2,393,728)		549,210		(1,844,518)	$ 1,500,000	$ 344,518		10,381,611	10,381,611
Acorn	(166,299)		57,010		(109,289)	109,289			1,239,840	1,239,840
Stanford/Adeline	(77,070)		0		(77,070)		77,070			
Oak Center	0				0					
Broadway/MacArthur/	(611,637)		125,000		(486,637)	486,637			2,381,463	2,381,463
San Pablo	0				0					
Oakland Army Base	(624,949)		200,000		(424,949)	424,949			436,097	436,097
Central City East	(4,381,450)		483,000		(3,898,450)	200,000	3,698,450		7,918,738	7,918,738
West Oakland	(1,201,384)		120,000		(1,081,384)	1,081,384			2,141,606	2,141,606
Oak Knoll	417,570				417,570				231,563	649,133
	$ (11,138,439)	$ 350,000	$ 1,627,730	$ 200,000	$ (8,960,709)	$ 3,802,260	$ 4,120,038	$ 1,455,981	$ 44,550,833	$ 43,512,421

[A] Net available tax: Net available tax increment represents revenue that is available for personnel services and operations and maintenance appropriations after all mandatory transfers, set-asides and debt payments have been covered.

Proposed Personnel Savings
FY 2010-2011

ATTACHMENT B

Department	Original Budget	Personnel Cuts	Overhead Changes	Change in Fringe	Revised Budget	Net Increase/ (Decrease)
Mayor	$ 482,280			(5,729)	476,551	(5,729)
City Council	1,652,471	(402,029)		(7,402)	1,243,040	(409,431)
City Administrator	1,577,110			(31,880)	1,545,230	(31,880)
City Attorney	3,745,720			(54,780)	3,690,940	(54,780)
City Clerk	274,449			(5,699)	268,750	(5,699)
Public Works	876,980	(123,763)		(190,600)	562,617	(314,363)
Finance & Management	880,430			(18,440)	861,990	(18,440)
Human Services	548,290			(7,450)	540,840	(7,450)
Police Services	3,535,070			8,810	3,543,880	8,810
Community & Economic Development	15,136,592	(678,454)	200,020	(180,951)	14,477,207	(659,385)
Totals	$ 28,709,392	$ (1,204,246)	$ 200,020	$ (494,121)	$ 27,211,045	$ (1,498,347)