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M E M O R A N D U M

To: Honorable Mayor and City Council

From: Thomas C. Williams, City Manager and Emma C. Karlen, Director of Financial Services

Subject: **State Legislative Changes and Local Impacts**

Date: July 27, 2011

On June 30, the Governor signed the State Budget Bill which contains the FY 2011-12 State Budget along with two trailer bills ABx1 26 and ABx1 27 that greatly impact redevelopment agencies. ABx1 26 (the "Dissolution Act") immediately suspends all new redevelopment activities and incurrence of indebtedness, and dissolves redevelopment agencies ("RDAs") effective October 1, 2011. ABx1 27 (the "Voluntary Program") allows RDAs to avoid dissolution under the Dissolution Act by opting into an alternative "voluntary" redevelopment program requiring specified substantial annual contributions to local school and special districts.

These actions by the Governor to eliminate Redevelopment create severe and unprecedented financial strain on the City of Milpitas Redevelopment Agency, Capital Improvement Program and General Fund. As a result, the City has no choice but to rethink its organizational structure and service delivery models. The impact of the Governors decision eliminates approximately $7.4 million of tax increment revenue transferred to the General Fund annually as well as depletes revenue to the City's Capital Improvement Program previously funded by Redevelopment. A summary analysis of the Milpitas Redevelopment Agency as a result of this new legislation is presented in the following tables.

In order for the Milpitas Redevelopment Agency to continue operating, the Agency must adopt an ordinance and agree to pay an estimated amount of $13.9 million in FY 2011-12 and $3.3 million in each subsequent year. Once the ordinance goes into effect, the suspension on Agency activities is lifted and the Agency is free to enter into new contracts, modify existing ones, and engage in new Agency projects. However, the first payment in the current fiscal year is due on January 15, 2012

<u>Fiscal Impacts of the Voluntary Program</u>

Option 1 - Participate in the Voluntary Program
(in millions)

RDA Non-Housing Fund	FY 11-12	FY 12-13	FY 13-14
Beginning Fund Balance	$ 29.9	$ 20.7	$ 8.6
Revenue	*36.3	25.3	26.3
Debt Obligations	(17.5)	(17.5)	(18.4)
Loan repayment to the City	(3.6)	(3.0)	(3.0)
Personnel, administrative & O/H and contractual services	(7.0)	(7.2)	(7.4)
CIP funding (based on 5 year plan)	(3.5)	(6.4)	(6.7)
ABx1 27 payment	**(13.9)**	**(3.3)**	**(3.3)**
Ending Fund Balance	$ 20.7	$ 8.6	$ (3.9)

* For FY 2011-12 only, a RDA will be exempt from making its full deposit into the Low and Moderate Income Housing Fund but only to the extent that it makes a finding that there are insufficient other monies to meet its debt and other obligations etc. This analysis assumes that the Agency Board will make such a finding.

RDA Housing Fund	FY 11-12	FY 12-13	FY 13-14
Beginning Fund Balance	$ 12.8	$ 5.7	$ 13.3
Revenue	0.6	12.4	13.0
Debt Obligations	(0.4)	(0.4)	(0.4)
Personnel, administrative & O/H and contractual services	(1.3)	(1.4)	(1.4)
Purchase McCandless property	(6.0)	(3.0)	(3.0)
Ending Fund Balance	$ 5.7	$ 13.3	$ 21.5

Benefits to the City of Milpitas	FY 11-12	FY 12-13	FY 13-14
Direct personnel funding	$ 1.8	$ 1.8	$ 1.9
Shared Adm. Support and overhead	5.6	5.7	5.8
Capital Imp. Project funding	3.5	6.4	6.7
Loan repayment	3.6	3.0	3.0
Total Benefits	$ 14.5	$ 16.9	$ 17.4

By participating in the Voluntary Program, the Agency's Non-Housing Fund will end with a negative fund balance by the end of FY 13-14. Assuming that the Agency continues to pay its personnel, share administrative and overhead costs with the City, fund contractual services, at the same level and repay the outstanding loan to the City for property purchases, there will be no funds available for economic development or blight elimination projects save for a few capital improvement projects.

The stark reality is the existing fund balance will be completely depleted by the current funding practice of the RDA and the Voluntary Program payments. Economic stimulation projects to fill vacant buildings, such as SunPower and Flextronics support, and support of the Chamber of Commerce would no longer be available. Infrastructure projects such as utility expansion in the Transit Area, or street reconstruction in the project areas would not be attainable. The Agency would in effect be out of business by the end of FY 2013-14.

While the RDA Non-Housing fund will be diminished, the Housing Fund will continue to grow over the next 3 years. State legislation allows cities to continue its affordable housing programs and it is projected that there will be sufficient tax increment revenue to fund local affordable housing needs. There is ample opportunity to be proactive in the use of the funds, although current and anticipated future legislation will limit its uses and focus on low and very low income housing initiatives.

The benefits to the City are funding of personnel, shared administrative and overhead costs, Capital improvement project funding and repayment of loan to the City for property purchases. The loan payment was used in the last four fiscal years and will be used in FY 2011-12 as a mechanism to balance the General Fund budget. The benefits to the City range from $14.5 million to $17.4 million annually, dependent on the amount of capital improvement project funding. However, as noted above, at the current rate of funding, coupled with the requirement of the Voluntary Program payments, the benefits to the City at this level will most likely come to an end by FY 13-14.

Fiscal Impacts of the Dissolution Act

Option 2 – Dissolve the Redevelopment Agency (in millions)

	FY 11-12	FY 12-13	FY 13-14
Tax increment revenue	$ 35.8	$ 36.9	$ 38.6
Debt Obligations	(17.9)	(17.9)	(18.8)
Loan repayment to the City	(3.6)	(3.0)	(3.0)
Purchase McCandless property	(6.0)	(3.0)	(3.0)
Remaining Tax Increment. to be distributed to other taxing entities	$ 8.3	$ 13.0	$ 13.8

Loss to the City of Milpitas	FY 11-12	FY 12-13	FY 13-14
City's share of the Tax increment	$ 1.6	$ 2.5	$ 2.6
Loan repayment	3.6	3.0	3.0
Loss of direct personnel funding	(1.8)	(1.8)	(1.9)
Loss of Shared Adm. Support & O/H	(5.4)	(5.5)	(5.6)
Loss of Capital Imp. Project funding	(3.5)	(6.4)	(6.7)
Total Net Loss	$ (5.5)	$ (8.2)	$ (8.6)

If the City Council opts not to participate in the Voluntary Program, the Dissolution Act suspends and prohibits most redevelopment activities by dissolving the redevelopment agency effective October 1, 2011. The City can decide to become the "successor Agency" and work with a county oversight board to continue to satisfy pre-existing, enforceable obligations of the former agency (e.g., the outstanding tax allocation bonds, loan or grant commitments, etc.) and administer the wind-down of the dissolved agency. Any remaining tax increment revenue after payment of enforceable obligations will be distributed to the taxing entities within the project area.

The City's share of the tax increment revenue is approximately $1.6 million in FY 11-12 and increases to $2.6 million in FY 13-14. However, the City as a successor agency can only pay administrative costs up to $250,000 per fiscal year. The net loss amount is approximately $5.5 million in FY 2011-12 and increases to $8.6 million in FY 2013-14.

CONCLUSION:

It is recommended that the City Council and Agency Board take the necessary actions to comply with the Voluntary Program (i.e., keep operating the Milpitas Redevelopment Agency and make the annual payments) and direct the City Manager to proceed with reorganization of the City's operating structure to overcome the loss of $7.4 million to the City's General Fund for consideration by the City Council at their meeting of September 6, 2011. It should be noted that the California Redevelopment Agency and the League of California Cities filed a lawsuit on July 18, 2011, challenging the legality of the Governor's budget. However, it is critical that the City commence with a strategy of reorganization and continued cost reductions as a result of the State's actions. If the court finds the State budget illegal, the City will still face a $5-$6 million structural deficit that must be overcome so the need to rethink our organizational structure and business model in an effort to continue to reduce the City's General Fund cost is essential.

To continue with redevelopment activities, the City Council must adopt an ordinance choosing this route by November 1, 2011. (A resolution of intent must be passed by October 1, 2011 to preserve the right to act after that date.) If the Agency were to initially choose this option, it may at anytime later opt out of the program and go through the windup and dissolution procedures of AB x1 26. Each annual payment thus in essence “purchases” a year of continued Agency existence.

If the City Council and Agency Board were to choose the Dissolution Act option, all new redevelopment activities would be suspended and the Agency would take further affirmative steps to wind up its affairs and dissolve its assets, under the direction of the oversight board.