



THE CITY OF SAN DIEGO

Redevelopment Agency's Report

DATE ISSUED: April 22, 2009 REPORT NO: RA-09-12

ATTENTION: Honorable Chair and Members of the Redevelopment Agency,
Docket of April 28, 2009

SUBJECT: Fiscal Year 2009 Budget Amendment - Education Revenue
Augmentation Fund (ERAF)

REQUESTED ACTION:

Should the Redevelopment Agency amend the redevelopment project area budgets in order to make one-time payments totaling \$11,457,209 into the Education Revenue Augmentation Fund (ERAF) pursuant to Assembly Bill 1389 ("AB 1389")?

STAFF RECOMMENDATION:

Amend the redevelopment project area budgets as required in order to make one-time payments totaling \$11,457,209 to the Education Revenue Augmentation Fund pursuant to AB 1389.

SUMMARY:

California legislators and the Governor approved budget trailer bill AB 1389 in September 2008 which, among other things, authorizes a one-time payment of \$350 million of redevelopment funds into the Education Revenue Augmentation Fund (ERAF). The \$350 million shift offsets what the state general fund otherwise would have to give schools under a voter-approved school-funding guarantee.

Prior to May 10, 2009, each redevelopment agency is required to remit its share of the cumulative ERAF contribution to the respective county.

The State's Director of Finance determines the amount of payment required to the ERAF by each redevelopment agency. One half of the each agency's contribution is based on the agency's percentage share of the total statewide net tax increment revenues (i.e., tax increment revenue after pass-through payments are made). The other half of each agency's contribution is based on the agency's percentage share of the total statewide gross tax increment revenue. The ERAF payment is subordinate to any existing bonded indebtedness. The legislation provided that an agency unable to make full payments may enter into an agreement with the legislative body to fund the difference between the total ERAF payment and the amount paid by the agency. Severe restrictions will be placed on agencies that do not make the full payment on or before the May 10, 2009 deadline.

The California Redevelopment Association (CRA) and the redevelopment agencies of the cities of Moreno Valley and Madera filed a lawsuit in Sacramento Superior Court in December 2008, seeking to block parts of budget trailer bill AB 1389 on grounds that it is

unconstitutional.

Specifically, the lawsuit seeks to do two things:

1. Invalidate specific sections of AB 1389, relating to the transfer of redevelopment funds; and
2. Prohibit the state from forcing county auditors to divert these redevelopment funds to the Educational Revenue Augmentation Funds (ERAF).

Article XVI, Section 16 of the California Constitution states that redevelopment funds can only be used to finance redevelopment project activities. The lawsuit contends that taking redevelopment funds to balance the state’s budget does not qualify as a constitutionally permitted use of these voter-approved funds and is a clear violation of the California Constitution.

If CRA prevails in the action, funds remitted to the counties for the ERAF would be returned to the respective redevelopment agencies.

Payments:

The required ERAF payments for the Agency’s 17 redevelopment project areas are as follows:

Project Area	Managing Entity	ERAF Payment
Horton Plaza	CCDC	\$711,717
Centre City	CCDC	\$7,472,819
Linda Vista	City Redevelopment Division	\$7,431
College Grove	City Redevelopment Division	\$47,058
Barrio Logan	City Redevelopment Division	\$41,174
City Heights	City Redevelopment Division	\$812,887
College Community	City Redevelopment Division	\$53,902
North Park	City Redevelopment Division	\$431,660
San Ysidro	City Redevelopment Division	\$280,092
Naval Training Center	City Redevelopment Division	\$296,695
North Bay	City Redevelopment Division	\$540,174
Crossroads	City Redevelopment Division	\$283,821
Grantville ⁽¹⁾	City Redevelopment Division	\$0
Gateway Center West	SEDC	\$23,254
Mount Hope	SEDC	\$120,548
Southcrest	SEDC	\$169,010
Central Imperial	SEDC	\$164,967
Total		\$11,457,209

⁽¹⁾ The Grantville Redevelopment Project Area did not receive Tax Increment Revenue during Fiscal Year 2007. Accordingly, the State’s allocation methodology resulted in a \$0 ERAF Transfer Requirement for this project area.

FISCAL CONSIDERATIONS:

The State-imposed ERAF Payment was not budgeted by the Agency. Thus the Agency must now amend the budgets for its redevelopment project areas in order to process the required payment. For the project areas managed by CCDC, the proposed budget amendment includes an increase in appropriation of \$5,256,000 funded by prior-year tax increment receipts. The balance of the ERAF payment from the CCDC-managed project areas is being funded via a transfer of appropriation from respective project area capital projects funds to the respective project area taxing agencies funds. For the project areas managed by SEDC and City Redevelopment, the required ERAF payment is being funded via a transfer of appropriation from the capital project funds of the respective project areas to the respective taxing agencies funds, resulting in a net-zero change to the appropriation for those project areas. Though there are no currently identified redevelopment projects adversely affected by these payments in the near term, these payments effectively reduce the funds available for investment in redevelopment projects.

The detail of the proposed budget amendments is as follows:

Project Area	Establish ERAF Budget (Appropriation increase to Taxing Agencies Funds)	Appropriation Decrease to Capital Projects Funds	Net Budget Change
Centre City	\$7,472,819 Fund 98890	(\$2,216,819), Fund 99061	\$5,256,000
Horton Plaza	\$711,717 Fund 98409	(\$711,717), Fund 98410	\$0
Gateway Center West	\$23,254 Fund 983515	(\$23, 254) Fund 98350, Dept 97205	\$0
Mount Hope	\$120,548 Fund 983620	(\$120,548) Fund 98360, Dept 97147	\$0
Southcrest	\$169,010 Fund 983312	(\$169,010) Fund 983302 Dept 97184	\$0
Central Imperial	\$164,967 Fund 98791	(\$164,967) Fund 98770 Dept 9876	\$0
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Project Area	Establish ERAF Budget (Appropriation increase to Taxing Agencies Funds)	Appropriation Decrease to Capital Projects Funds	Net Budget Change
Linda Vista	\$7,431 Fund 98505	(\$7,431) Fund 98500	\$0
College Grove	\$47,058 Fund 98004	(\$47,058) Fund 98001	\$0
Barrio Logan	\$41,174 Fund 98907	(\$41,174) Fund 98900	\$0
City Heights	\$812,887 Fund 98201	(\$812,887) Fund 98200	\$0
College Community	\$53,902 Fund 98103	(\$53,902) Fund 98100	\$0
North Park	\$431,660 Fund 98303	(\$431,660) Fund 98300	\$0
San Ysidro	\$280,092 Fund 98573	(\$280,992) Fund 98570	\$0
Naval Training Center	\$296,695 Fund 98053	(\$296,695) Fund 98050	\$0
North Bay	\$540,174 Fund 98073	(\$540,174) Fund 98070	\$0
Crossroads	\$283,821 Fund 98253	(\$283,821) Fund 98250	\$0

PREVIOUS AGENCY, COUNCIL and/or COMMITTEE ACTION:

On September 24, 2008 the required Fiscal Year 2009 ERAF payment and its potential impact on the Redevelopment Agency was presented and discussed at the Budget and Finance Committee. The Office of the Independent Budget Analyst (IBA) issued IBA Report 08-100 on this subject. Additional actions taken by CCDC and SEDC are stated below:

CCDC: CCDC's Budget, Finance and Administration Committee voted unanimously on February 4, 2009 to recommend a budget amendment to facilitate the ERAF payment as applicable to the CCDC-managed project areas. The CCDC Board voted unanimously on February 18, 2009 to recommend a budget amendment to facilitate the ERAF payment as applicable to CCDC-managed project areas.

SEDC: SEDC's Personnel and Budget Committee unanimously recommended a budget amendment to facilitate the required ERAF payment as applicable to the SEDC-managed

project areas on March 18, 2009. The SEDC Board unanimously recommended a budget amendment as applicable to the SEDC-managed project areas on March 25, 2009.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Redevelopment Division staff informed the Project Area Committees (PACs) about the required ERAF payment for their respective redevelopment project areas as follows:

Crossroads PAC, January 22, 2009
North Bay PAC, February 4, 2009
North Park PAC, March 10, 2009
College Community PAC, April 7, 2009
City Heights PAC, April 13, 2009
Barrio Logan PAC, April 15, 2009

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

While there are no direct near-term impacts associated with this action, this required action effectively reduces funds available for investment in redevelopment projects.

Respectfully submitted:

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