



CITY OF SANTA BARBARA

JOINT CITY COUNCIL AND REDEVELOPMENT AGENCY AGENDA REPORT

AGENDA DATE: February 10, 2009

TO: Mayor and Councilmembers
Chair and Boardmembers

FROM: Housing and Redevelopment Division, Community Development
Department

SUBJECT: Educational Revenue Augmentation Fund Payment

RECOMMENDATION:

- A. That Council authorize the Finance Director to notify the Santa Barbara County Auditor that the Redevelopment Agency's Educational Revenue Augmentation Fund payment will be made by the Redevelopment Agency from Redevelopment Agency tax increment revenues; and
- B. That the Redevelopment Agency Board authorize the appropriation and expenditure of \$1,403,758 from the Redevelopment Agency's General Fund to pay the Agency's obligation to the state-imposed Educational Revenue Augmentation Fund.

DISCUSSION:

On June 24, 2008, the Redevelopment Agency Board approved the Agency's Fiscal Year 2009 budget. At that time, Agency staff knew that the State's response to the State budget crisis would likely include an Educational Revenue Augmentation Fund (ERAF) obligation for redevelopment agencies, yet the magnitude of such an obligation was unknown.

The State had implemented a number of ERAF shifts since 1990. In the two most recent instances (Fiscal Years 2005 and 2006), the Santa Barbara Redevelopment Agency was required to pay the State approximately \$1.3 million and \$1.2 million, respectively. Recognizing the possibility of the State ultimately enacting an ERAF shift of that magnitude, the Agency Board directed staff to take a conservative financial approach to the Fiscal Year 2009 budget and not pursue any new capital projects or community grants until the amount of the ERAF obligation was determined.

The Agency's ERAF obligation has been set by the State at \$1,403,758. Recently, after being notified by the State of the required payment amount, the Board acted on the

capital projects and community grants portion of the FY 2009 budget to complete the budget process. In that action, the Board set aside the requisite amount for the ERAF payment.

The ERAF payment is due to the County on May 1, 2009. The enacting legislation requires that the Agency's "Legislative Body" (the City Council) report to the County Auditor by March 1, 2009, how the ERAF payment will be made. This provision in the legislation recognizes that some jurisdictions may have to pay some or all of the ERAF payments from the jurisdictions' General Funds, because the local redevelopment agencies do not have sufficient funds to make the payments. Having set funds aside, the Redevelopment Agency has sufficient funds to make the payment to the County, and staff recommends that the Council authorize the Finance Director to report to the County Auditor by March 1, 2009, that the payment will be made from Agency funds.

The California Redevelopment Association (CRA) and the Redevelopment Agency of Morena Valley have filed a lawsuit in Sacramento Superior Court seeking to block parts of budget trailer bill AB 1389 on grounds that it is unconstitutional. The lawsuit seeks to prohibit the state from forcing county auditors to divert these redevelopment funds to the Educational Revenue Augmentation Funds. Morena Valley RDA was selected to join the lawsuit due the very substantial damage the ERAF exaction will do to the financial status and capital program for that RDA. The State of California Department of Finance is listed as the principal defendant/respondent in the lawsuit. The lawsuit asserts that the ERAF shift does not qualify as a constitutionally permitted use of these voter-approved funds and is a clear violation of the Constitution. CRA will be providing a statement on the principles and status of the lawsuit for all agencies to include in their March 1st notification to their county auditors, and it is staff's intention to include that notification with the notification to the County Auditor.

Staff recommends that the Agency Board appropriate the Fiscal Year 2009 ERAF obligation of \$1,403,758 from the Agency's General Fund and process the ERAF payment to the State Department of Finance by May 1, 2009.

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SUBMITTED BY: Paul A. Casey, Deputy Director

APPROVED BY: City Administrator's Office