



CITY OF SANTA BARBARA

JOINT CITY COUNCIL AND REDEVELOPMENT AGENCY AGENDA REPORT

AGENDA DATE: February 9, 2010

TO: Mayor and Councilmembers
Chair and Boardmembers

FROM: Housing and Redevelopment Division, Community Development
Department

SUBJECT: Supplemental Educational Revenue Augmentation Fund Payment

RECOMMENDATION:

- A. That Council authorize the Finance Director to notify the Santa Barbara County Auditor no later than March 1, 2010, that the Redevelopment Agency's Supplemental 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 expenditure not later than May 10, 2010, of \$6,824,914 from the Redevelopment Agency's General Fund to pay the Agency's obligation to the state-imposed Supplemental Educational Revenue Augmentation Fund.

BACKGROUND:

On June 23, 2009, the Redevelopment Agency Board approved the Agency's Fiscal Year 2010 budget. At that time, Agency staff was aware that the State Legislature's response to the State budget crisis would likely include an Educational Revenue Augmentation Fund shift from redevelopment agencies, yet the magnitude of such an obligation was unknown. Not knowing the amount of the likely ERAF shift, the Agency Board took a conservative financial approach and did not fund new capital projects at that time.

The State budget for Fiscal Year 2010 was passed in late July and included another taking of redevelopment funds in the form of a Supplemental Educational Revenue Augmentation Fund, or SERAF, totaling over \$2.05 billion statewide over the next two years. The Agency's 2010 SERAF obligation has been set at \$6,824,914.

Once the \$6,824,914 SERAF obligation was known, Agency staff worked with various City Departments to develop a slate of capital projects for the Agency Board to consider as part of the Agency's Capital program. On September 29 and October 27, the Agency Board approved a slate of 11 capital projects totaling over \$6,662,400. In that action, the Board also appropriated and set aside the requisite \$6,824,874 for the SERAF payment. Revised SERAF shift figures were released in November and the Agency's total increased by \$40 to the current, and final, \$6,824,914.

DISCUSSION:

The SERAF payment is due to the County on May 10, 2010. The Agency's Legislative Body (the City Council) must report to the County Auditor by March 1, 2010, how the SERAF payment will be made. This provision in the legislation recognizes that because some redevelopment agencies may not have sufficient funds to pay some or all of the SERAF shift, those jurisdictions may have to make the payments from the jurisdictions' non-Agency General Fund. The Agency has sufficient funds to make the payment to the County. Staff recommends that the Council authorize the Finance Director to report to the County Auditor no later than March 1, 2010, that the payment will be made from Agency funds.

On October 20, 2009, the California Redevelopment Association (CRA) announced that it filed a lawsuit in Sacramento Superior Court to overturn AB 26 4x, a state budget trailer bill passed as part of the 2010 State budget. AB 26 4x authorizes the \$2.05 billion SERAF shift of local redevelopment funds to use for state purposes. The lawsuit challenges the constitutionality of AB 26 4x and seeks to prevent the State from taking redevelopment funds for non-redevelopment purposes. The CRA has hopes for a ruling on the lawsuit prior to the May 10 payment due date.

This is the second lawsuit filed in as many years by CRA challenging the constitutionality of ERAF/SERAF shifts. In April 2009, the Sacramento Superior Court ruled in favor of CRA and invalidated the 2008 budget language that would have shifted \$350 million in redevelopment funds statewide to the State. On September 28, the State dismissed its appeal of the decision thereby making the April decision final and binding. This decision allowed the Agency Board, on October 27, to reprogram \$1,403,758 set aside for the 2009 ERAF obligation towards important capital projects.

Staff recommends that the Agency Board approve, if necessary, the SERAF payment to the State Department of Finance by May 10, 2010. If the CRA lawsuit is successful, the Agency will not submit the payment. Agency staff will continue to monitor the situation and keep the Agency Board apprised of the status of the legal challenge.

PREPARED BY: Brian J. Bosse, Housing and Redevelopment Manager

SUBMITTED BY: Paul A. Casey, Assistant City Administrator

APPROVED BY: City Administrator's Office