



Agenda Item No. \_\_\_\_\_

File Code No. 620.01

# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** July 17, 2012

**TO:** Mayor and Councilmembers

**FROM:** Accounting Division, Finance Department

**SUBJECT:** Proposed Budget Strategy For Impacts of Redevelopment Agency Dissolution

### **RECOMMENDATION:**

That Council hear a report from staff on the proposed budget strategy to address the financial impact of the Redevelopment Agency dissolution.

### **DISCUSSION:**

In December 2011, the Supreme Court upheld AB 26 that dissolved redevelopment agencies (RDAs). As a result of the dissolution of the Redevelopment Agency (RDA) of the City of Santa Barbara, the City assumed the role of Successor Agency. An Oversight Board was also established to supervise the activities of the Successor Agency, and to ensure that the former RDA's assets are distributed to the taxing entities expeditiously and in a manner that maximizes value. The Oversight Board also determines whether contracts, agreements or other arrangements between the former RDA and other parties are deemed enforceable obligations through the adoption of the Recognized Obligation Payment Schedule (ROPS).

While the budgetary impacts of the RDA's dissolution to the Fiscal Year 2013 budget were not fully known when the budget was being prepared for adoption, estimates and provisions were incorporated into the adopted budget approved by Council on June 19, 2012. With respect to the current fiscal year 2012, staff has been awaiting final decisions and the closing of the books before returning to Council with the necessary changes to the budget to reflect the final impacts to the City, primarily the General Fund.

### **Fiscal Year 2012 General Fund Fiscal Impact**

The Oversight Board completed its review of the first ROPS covering the period of February 1, 2012 through June 30, 2012. In its review, the Oversight Board determined that certain previously redevelopment-funded project costs did not meet the definition of an enforceable obligation and, therefore, denied approval of funding from the Redevelopment Property Tax Trust Fund (RPTTF) established by the County or from existing RDA

reserves held by the Successor Agency. As a result, the General Fund will need to fund approximately \$700,000 in disallowed project costs that were incurred for Fiscal Year 2012.

To cover these unanticipated costs in the General Fund, staff is recommending that the additional property tax revenues received in June 2012 from the RDA dissolution be used to fund these disallowed costs. In June 2012, the City received about \$874,000 in additional property tax revenues from the County representing the City's share of the property tax revenues previously allocated to the former RDA, excluding amounts paid to the City's Successor Agency for its enforceable obligations for the period of July 1, 2012 through December 31, 2012.

Staff will return at a future meeting with a more accurate accounting of disallowed project costs and recommend budget adjustments to estimated revenues and appropriations.

### **Future General Fund Impact**

On June 27, 2012, the Legislature passed AB 1484. The measure requires that Successor Agencies make a first payment to the County by July 12, 2012. This payment will be based on property tax revenues received in December 2011 less the adopted ROPS for the period of February 1, 2012 through June 30, 2012. For the City of Santa Barbara, the County has determined that payment to be \$2.24 million. The funds will be deposited in the RPTTF and subsequently distributed to the taxing entities. Based on the City's proportionate share of property taxes, the General Fund should receive approximately \$300,000.

A second payment to the County will occur in April 2013. The payment will be for any remaining excess cash assets of the former RDA held by the Successor Agency. Based on current cash balances (excluding Housing and Bond Proceeds) the payment to the County will be about \$13.8 million. The amount will again be deposited in the RPTTF, and subsequently distributed to the taxing entities. The City's General Fund share of property taxes is estimated to be about \$1.7 million. After these funds are received by the City, staff will return to the City Council for direction on the appropriation of these funds to priority projects, some of which have been de-appropriated due to the dissolution of the RDA.

**PREPARED BY:** Ruby Carrillo, Accounting Manager

**SUBMITTED BY:** Robert Samario, Finance Director

**APPROVED BY:** City Administrator's Office



# CITY OF SANTA BARBARA



## Proposed Budget Strategy For Impacts of RDA Dissolution

# RDA Dissolution

- ◆ In December 2011, the Supreme Court upheld AB26 that dissolved Redevelopment Agencies.
- ◆ The City of Santa Barbara assumed the role of Successor Agency.
- ◆ An Oversight Board was established to supervise the dissolution process.
  - To determine whether contract, agreements, and other arrangements are Enforceable Obligations.
  - To adopt the Recognized Obligation Payment Schedule (ROPS).

# RDA Dissolution

## FY 2011-12 General Fund Impact

- ◆ The Oversight Board completed its review of the first ROPS for January 1, 2012 - June 30, 2012.
  - Approximately \$700,000 in incurred project costs were disallowed- determined not to be Enforceable Obligations.
- ◆ In June 2012, the City received \$874,000 in additional property tax revenues from the re-distribution of RDA property taxes for FY 2012-13 that can be used to fund the disallowed costs.
- ◆ Staff will bring to the City Council recommended budget adjustments at the FY 2012 4<sup>th</sup> quarter review.

# RDA Dissolution

## Future General Fund Impact

- ◆ AB 1484 passed on June 27, 2012
  - First Payment
    - City made a payment to the Auditor-Controller on July 12 equal to RDA property tax revenues received in December 2011 less Adopted ROPS- \$2.2 million.
    - On July 19, 2012 the General Fund will receive \$302k in additional property tax revenues.
  - Second Payment
    - City to make a payment on April 10, 2013 for any remaining cash and assets of the RDA- projected to be \$13.8 million.
    - The General Fund will receive about \$1.7 million in additional property tax revenues.

# Successor Agency Cash Assets

	Operating – Fund 121	Capital – Fund 322	Sub-Total	Housing- Fund 122	Total
<b>REVENUES</b>					
Transfers In from RDA	<u>\$ 12,749,400</u>	<u>\$ 11,754,030</u>	<u>\$ 24,503,430</u>	<u>\$ 2,980,450</u>	<u>\$ 27,483,880</u>
<b>EXPENDITURES</b>					
Administrative Costs	583,679	-	583,679	-	583,679
Special Projects	302,276	-	302,276	-	302,276
Debt Service	6,365,133	-	6,365,133	-	6,365,133
Capital Projects	<u>-</u>	<u>1,906,432</u>	<u>1,906,432</u>	<u>-</u>	<u>1,906,432</u>
TOTAL EXPENDITURES	7,251,088	1,906,432	9,157,520	-	9,157,520
Less: Disallowed Project Costs	<u>283,580</u>	<u>381,843</u>	<u>665,423</u>	<u>-</u>	<u>665,423</u>
REVISED EXPENDITURES	<u>6,967,508</u>	<u>1,524,589</u>	<u>8,492,097</u>	<u>-</u>	<u>8,492,097</u>
BALANCE, 6/30/12	\$ 5,781,892	\$ 10,229,441	\$ 16,011,333	\$ 2,980,450	\$ 18,991,783
Payment to Auditor-Controller 7/12/12	<u>2,247,206</u>	<u>-</u>	<u>2,247,206</u>	<u>-</u>	<u>2,247,206</u>
REMAINING BALANCE	<u>\$ 3,534,686</u>	<u>\$ 10,229,441</u>	<u>\$ 13,764,127</u>	<u>\$ 2,980,450</u>	<u>\$ 16,744,577</u>

# General Fund- Re-distribution of RDA Property Tax

	June 2012 (Actual)	July 2012 (Actual)	November 2012 (Projected)	April 2013 (Projected)
RDA Tax Increment	\$ 8,681,051	\$2,247,206	\$2,980,450	\$13,764,127
Less: Payment of ROPS and County Admin Fees 7/1/12-12/31/12	<u>- 1,932,823</u>	<u>                  -</u>	<u>                  -</u>	<u>                  -</u>
Amount to be Redistributed	<u>6,372,605</u>	<u>2,247,206</u>	<u>2,980,450</u>	<u>13,764,127</u>
Distribution to the City of Santa Barbara	<u>\$ 873,896</u>	<u>\$301,863</u>	<u>\$384,478</u>	<u>\$1,775,572</u>

# RDA Dissolution Future General Fund Impact

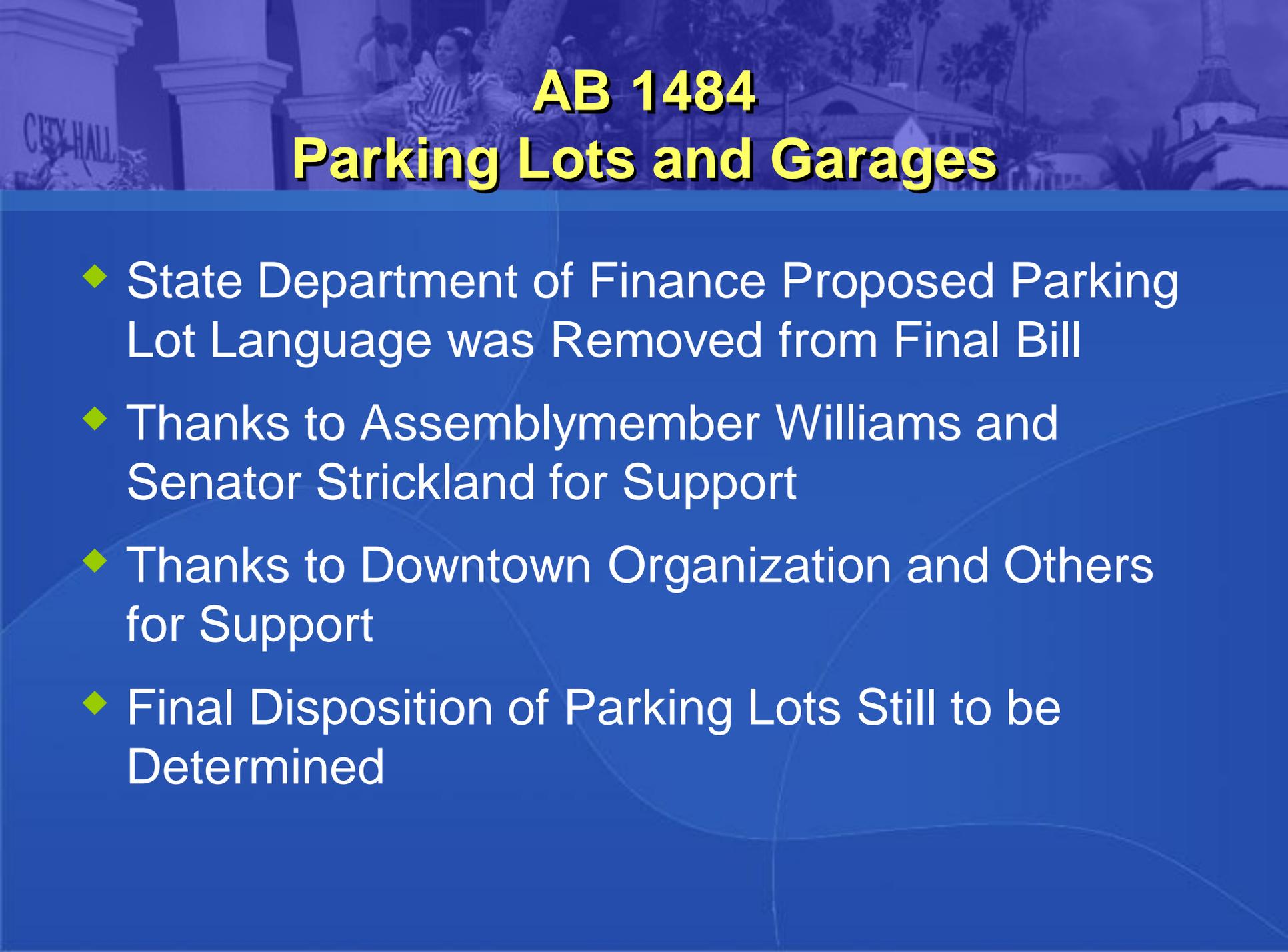
- ◆ Subsequent to receiving the City's share of the re-distribution of property tax revenues estimated to be \$2.5 million, staff will return to the City Council for direction on appropriating these revenues to priority projects.



## AB 1484

# Redevelopment Dissolution Trailer Bill

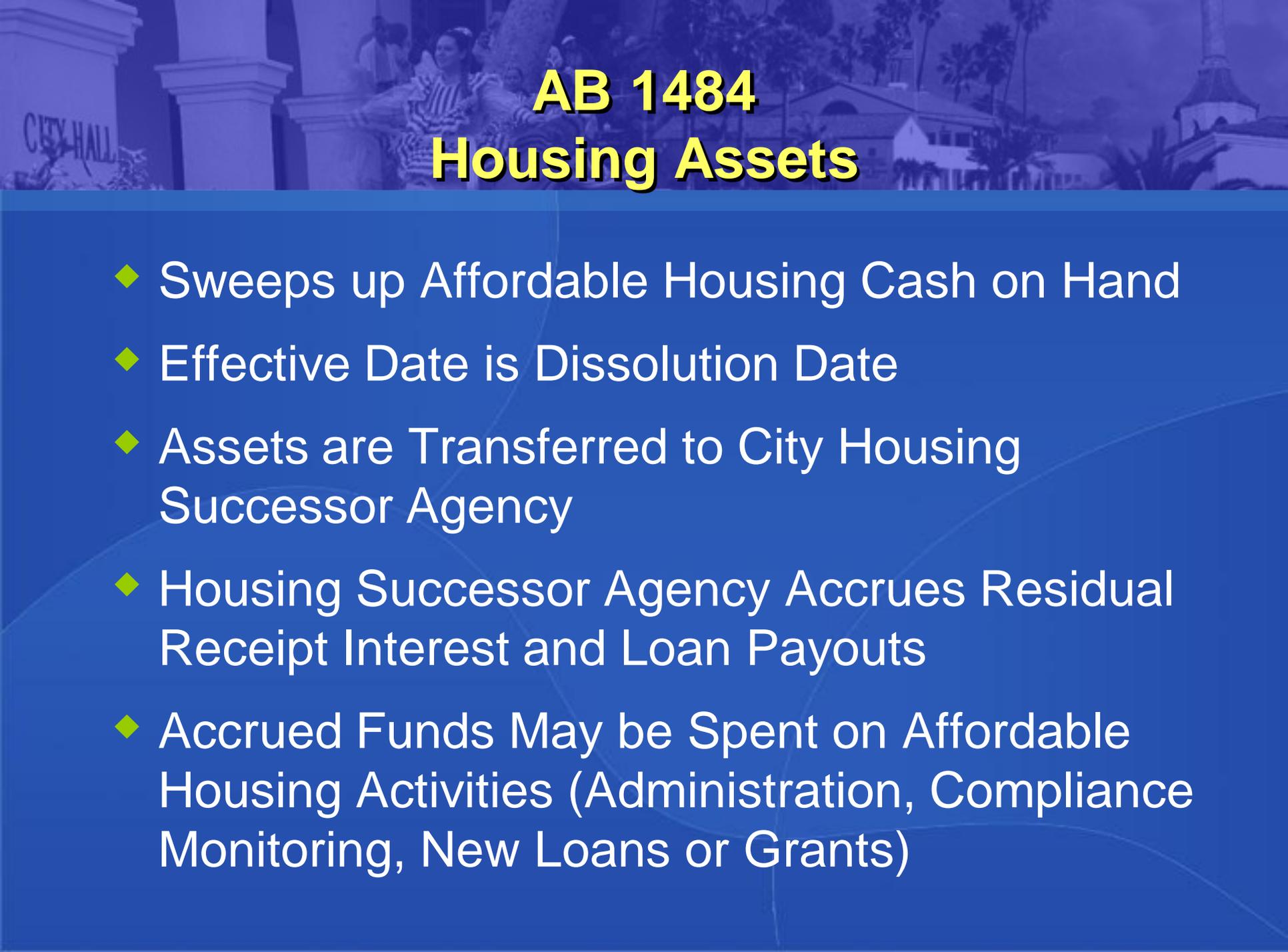
- ◆ Replaces Many Provisions of AB 1x 26 Legislation
- ◆ Addresses Timing and Process for Dissolution
- ◆ Provides Key Provisions on Housing, Property Disposition, and Unspent Bond Proceeds



# AB 1484

## Parking Lots and Garages

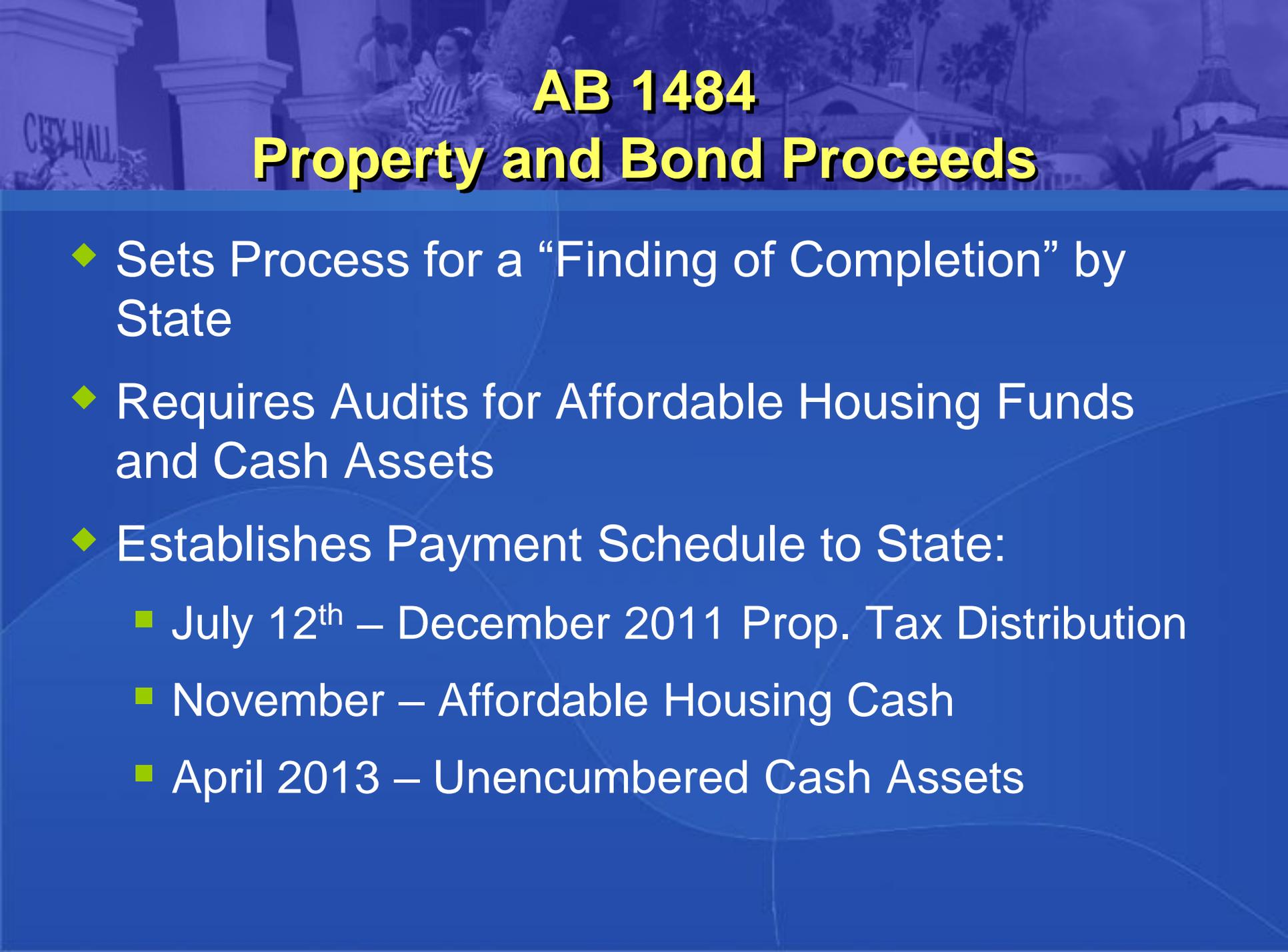
- ◆ State Department of Finance Proposed Parking Lot Language was Removed from Final Bill
- ◆ Thanks to Assemblymember Williams and Senator Strickland for Support
- ◆ Thanks to Downtown Organization and Others for Support
- ◆ Final Disposition of Parking Lots Still to be Determined



# AB 1484

## Housing Assets

- ◆ Sweeps up Affordable Housing Cash on Hand
- ◆ Effective Date is Dissolution Date
- ◆ Assets are Transferred to City Housing Successor Agency
- ◆ Housing Successor Agency Accrues Residual Receipt Interest and Loan Payouts
- ◆ Accrued Funds May be Spent on Affordable Housing Activities (Administration, Compliance Monitoring, New Loans or Grants)



# AB 1484

## Property and Bond Proceeds

- ◆ Sets Process for a “Finding of Completion” by State
- ◆ Requires Audits for Affordable Housing Funds and Cash Assets
- ◆ Establishes Payment Schedule to State:
  - July 12<sup>th</sup> – December 2011 Prop. Tax Distribution
  - November – Affordable Housing Cash
  - April 2013 – Unencumbered Cash Assets

# AB 1484

## Property and Bond Proceeds

- ◆ State Imposes Penalties for not Meeting Payment Schedule
  - State Can Offset City Sales Tax or Property Tax
- ◆ Once Payments are Made, “Safe Harbor Provisions” Applied
- ◆ “Safe Harbor Provisions” Include:
  - Property Disposition Clarified (but still requires Oversight Board and State Approval)
  - Unused Bond Proceeds Can Be Used “For Purposes for Which They Were Sold”
  - Approximately \$11.2 million in Unspent Bond Proceeds



# Questions?