

STAFF REPORT
Lancaster Redevelopment Agency

RCC 1
04/26/11
MVB

Date: April 26, 2011

To: Mayor Parris and City Council Members

From: Barbara Boswell, Finance Director

Subject: **Funding of Supplemental Education Revenue Augmentation Fund Payment**

Recommendations:

Under protest, approve payment in the amount of \$3,598,805.00 to County of Los Angeles on behalf of the State of California for the Fiscal Year 2010/11 Supplemental Education Revenue Augmentation Fund deposit; approve loan from Low and Moderate Income Housing Funds to fund this payment, as detailed in Attachment A.

Adopt **Resolution No. 07-11**, approving the payment of the Supplemental Education Revenue Augmentation Fund (SERAF) deposit with a loan from the Low and Moderate Income Housing Fund.

Approve budget adjustments as detailed on Attachment A.

Fiscal Impact:

\$3,598,805.00 loss, being funded by a loan from the Low and Moderate Housing Fund. The actions by the State of California severely impact our economic development and housing efforts to curb blight and bring new jobs and retail establishments to Lancaster. A number of projects that would have benefitted the citizens of Lancaster are being reduced, deferred, or cancelled.

Background:

On May 4, 2010 the Sacramento Superior Court upheld AB X4-26, which requires redevelopment agencies to transfer over \$2 billion for state purposes, specifically for the benefit of schools within the project areas. Lancaster Redevelopment Agency's share of this transfer was over \$20 million, with \$17.5 million paid in Fiscal Year 2009/10 and \$3.6 million due by 5/10/11. The ruling was in response to a lawsuit brought by the California Redevelopment Association (CRA) challenging the constitutionality of provisions of AB X4-26, which was passed in July 2009 as part of the Fiscal Year 2009/10 State budget.

The California Redevelopment Association "strongly disagrees" with the ruling and their board of directors quickly voted to appeal the decision. This case remains under appeal.

In evaluating our options, and giving consideration to the fact the Agency has already paid \$17.5 million as a result of the State's actions, staff researched the impacts of the alternative of not making the payment to the state. Under current legislation, if the Agency fails to make the payment we would be subject to the "death penalty". Under this scenario, the agency would be

required to increase its allocation to the Low and Mod Housing Set-Aside fund from 20% to 25%, be limited to 75% of its average monthly Fiscal Year 2008/09 administrative expenses, and be prohibited from issuing any new debt including bonds, notes, bond re-financings or other obligations. The budget implication is that the reduced level of allowable administrative expenses would result in a monthly shortfall of nearly \$75,000.00 per month for administrative costs. Additionally, if this payment were not made, the Agency would not be able to use its tax increment revenues for other Agency expenses and obligations, including debt service. This would result in a general fund subsidy to the Agency of approximately \$2.6 million annually.

It is staff's recommendation that the Agency not incur the death penalty, as it would completely eliminate any ability to conduct economic development activities and have a significant impact on the City's general fund with the additional budget shortfall.

The Lancaster Redevelopment Agency does not have surplus funds in the amount of \$3.6 million to make the required payment. In order to provide the needed funds, current budgeted projects in Housing and Neighborhood Revitalization need to be reduced. Reducing these projects impacts our ability to provide incentives for homeowner improvements and reduces the number of housing projects that can be completed within the master plan areas. The Agency and City will have to become more creative in utilizing available resources to achieve its economic development and housing program goals.

MVB:PLS:JAJ

Attachments:

1. Attachment A
2. Resolution No. 07-11