



CITY OF LONG BEACH

R-15

DEPARTMENT OF DEVELOPMENT SERVICES

Revised

333 West Ocean Blvd., 4th Floor Long Beach, CA 90802 Phone: 570.5237 Fax: 570.6205

February 10, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to notify the Los Angeles County Auditor-Controller that the City of Long Beach and its Redevelopment Agency (Agency) intends to fund the payment required by Section 33685(d) of the California Health and Safety Code using the Agency's tax increment revenue and housing set-aside in the amount of \$6,070,996. (Citywide)

DISCUSSION

On September 30, 2008, Governor Schwarzenegger signed Assembly Bill (AB) 1389, a budget trailer bill requiring redevelopment agencies statewide to pay a collective \$350 million into the Educational Revenue Augmentation Fund (ERAF). The bill directed the California Director of Finance (DOF) to allocate the \$350 million amongst the State's redevelopment agencies based on a formula of gross and net tax increment. On November 12, 2008, the DOF provided the Agency with its required Fiscal Year 2008-09 (FY09) ERAF payment: \$6,070,996. This payment is due to be made by May 10, 2009. However, AB 1389 also set a deadline of March 1, 2009 for all agencies to state their intentions on making this payment.

Redevelopment agencies have options for making the ERAF payment if certain findings are made. AB 1389 allows a redevelopment agency's host government (i.e., a city or county) to make the ERAF payment. Or, redevelopment agencies may use up to 50 percent of the current fiscal year's low- and moderate-income housing set-aside funds to make the ERAF payment if the Agency finds that there are insufficient funds to meet the ERAF obligation. The housing set-aside funds used to make the ERAF payment would need to be repaid within ten-years.

In the event that a redevelopment agency, or its host government, cannot or does not make its full ERAF payment by the May 10, 2009 deadline, that agency is subject to what is referred to as the "death penalty" until those payments are made. Specifically, an agency cannot encumber funds or expend money derived from any source except to pay previously issued bonds or other financial obligations; make contractual pass-through

payments; or expend an amount on administration exceeding 75 percent of the average monthly amount spent for that purpose in the preceding fiscal year. This penalty would essentially make it impossible for the Agency to implement its redevelopment program in any of its redevelopment project areas. In other words, all redevelopment activities would cease. The penalties are not lifted until the Los Angeles County Auditor-Controller certifies to the DOF that the required ERAF payment has been made in full by the Agency or on the Agency's behalf.

On January 21, 2008, the Long Beach Housing Development Company (LBHDC) Board of Directors were informed about the proposed use of a portion of housing set-aside funds to make the ERAF payment. They voted to oppose the use of set-aside funds because it would have an adverse impact on the Board's ability to carry out its City Council-mandated mission to provide affordable housing for low- and moderate-income residents of the City of Long Beach.

On February 2, 2009, the Agency took an action recommending that the ERAF payment be allocated in proportion to the amount of tax increment revenue to be received by each project area and the Low- and Moderate-Income Housing Set-Aside Fund during FY09. Pursuant to AB 1389, the Agency also made a finding that there are insufficient other moneys to make the ERAF payment without borrowing from the Housing Set-Aside Fund. The housing set-aside share of the ERAF payment, an estimated \$1,214,199, will be repaid within ten-years of May 10, 2009, the date by which the ERAF payment must be remitted to the County Auditor-Controller.

Based on the current estimated FY09 tax increment, the Agency recommended that the ERAF payment be allocated as follows:

| | |
|----------------------------|---------------------------|
| - Central | \$1,118,427 |
| - Downtown | 1,111,743 |
| - Los Altos | 38,866 |
| - North | 2,068,381 |
| - Poly High | 41,328 |
| - West Beach | 93,592 |
| - WLBI | 384,460 |
| - Housing Set-Aside | 1,214,199 |
| Total Project Areas | <u>\$6,070,996</u> |

This letter was reviewed by Assistant City Attorney Heather Mahood on January 20, 2009, and by Budget Management Officer Victoria Bell on January 22, 2009.

TIMING CONSIDERATIONS

City Council action is requested on February 10, 2009, in order to meet the March 1, 2009, deadline set by AB 1389 to inform the County Auditor-Controller of how the Agency intends to fund its ERAF obligation.

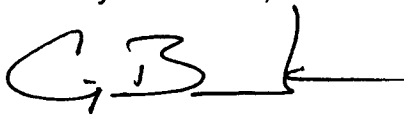
FISCAL IMPACT

There is no fiscal impact to the General Fund. The state-mandated payment will reduce FY09 tax increment revenue to the Development Services Department Redevelopment Fund (RD) by \$4,856,797 and to the Community Development Department Housing Development Fund (SR 135) by \$1,214,199, for a total reduction of \$6,070,996. Future tax increment revenues will be jeopardized if the required payment is not made.

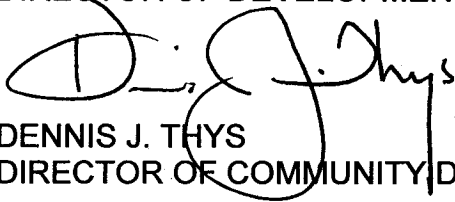
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CRAIG BECK
DIRECTOR OF DEVELOPMENT SERVICES



DENNIS J. THYS
DIRECTOR OF COMMUNITY DEVELOPMENT

CB:AJB:LAF:laf

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APPROVED:



PATRICK H. WEST
CITY MANAGER



The
**Long Beach
Housing
Development
Company**

January 26, 2009

William Baker
Chair, Long Beach Redevelopment Agency Board
333 W. Ocean, 3rd Floor
Long Beach, CA 90802

Dear Mr. Baker:

On January 21, 2009, The Long Beach Housing Development Company (LBHDC) Board was informed about the proposed use of about \$1.2 million of housing set-aside to help fund the Redevelopment Agency's (RDA) obligation to pay into the Educational Revenue Augmentation Fund (ERAF). On behalf of the LBHDC Board, I would like to express our opposition to this proposal because it affects our ability to provide affordable housing. Revenue sources for affordable housing are getting scarcer while the need for affordable housing continues to grow. The State has already frozen disbursement of grants previously awarded to the LBHDC and has suspended issuance of Notices of Funding Availability for funds that are earmarked for the creation of affordable housing. While we recognize that the RDA may not have sufficient funds to make the ERAF payment, we are extremely concerned that this proposal to use housing set-aside to partially fund the ERAF payment further decreases our funding sources and therefore diminishes our ability to carry out LBHDC's mission.

**MAKING
AFFORDABLE
HOUSING
HAPPEN**

Sincerely,

Patrick Brown
Chair, The Long Beach Housing Development Company Board

cc: Long Beach Redevelopment Agency Board Members
Mayor Foster and Members of the City Council

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