

# Agenda Report

August 8, 2011

**TO:** Honorable Mayor and City Council

**FROM:** City Manager, Economic Development Division

**SUBJECT: PARTICIPATION IN THE "ALTERNATIVE VOLUNTARY REDEVELOPMENT PROGRAM," AND CONTINUE REDEVELOPMENT ACTIVITIES UNDER AB X1 27.**

## **RECOMMENDATION:**

It is recommended, that the City Council:

- A. Conduct first reading of an ordinance that complies with the Alternative Voluntary Redevelopment Program established by Assembly Bill (AB) X1 27; and,
- B. Authorize the City Manager and City Attorney to file an appeal of the Department of Finance's determination of the amount of the City's required AB X1 27 payment for FY 2011-12, currently estimated to be \$6.6 million.

## **BACKGROUND:**

The Pasadena Community Development Commission (PCDC) was established with a mission "To enhance the economic stability of the City through economic development and affordable housing programs". The PCDC focuses on the identification, development and/or revitalization of commercial and neighborhood project areas within Pasadena. Currently, the PCDC is responsible for the activities of seven active Redevelopment Project Areas, which generate approximately \$29.7 million of tax increment within the boundaries of the Downtown, Old Pasadena, Orange Grove, Lincoln Avenue, Fair Oaks Avenue, Villa-Parke, and Lake/Washington Redevelopment Project areas.

In Pasadena, with the suburban sprawl that occurred after World War II, the oldest portions of the city suffered from all the blighting conditions that were at the heart of early redevelopment legislative intent. Vacant buildings, lack of investment, social challenges, and a wide variety of other constraints created very serious problems.

To combat this decline, Pasadena gradually established eight modest sized redevelopment project areas which in total, cover five percent (5%) of the city's land area. One of PCDC's project areas, Old Pasadena, represents Pasadena's (and possibly California's), finest example of the successful use of redevelopment funds to improve an area that was laboring heavily in terms of blight. That revitalization was only possible through the use of redevelopment, which facilitated the acquisition of vacant land, supported infrastructure improvements, and the financing of new public parking structures. Elsewhere in the city, redevelopment has been used to construct neighborhood grocery stores, improve aging infrastructure, and was leveraged to spawn building investments that now house thousands of jobs.

In addition to successful commercial redevelopment, over the past ten years PCDC has taken the lead agency role in the production of 923 affordable housing units. The Commission's Low and Moderate Income Housing Funds were utilized to directly subsidize the development of, and leverage other funding sources for 28 housing projects comprising 604 affordable units, with 72% (437 units) providing critically needed rental housing for very low and low income households. Altogether, the Commission's housing activities have helped provide safe, decent, and affordable homeownership opportunities to low and moderate-income families.

The continuing ability of the PCDC to eliminate blight and create economic development opportunities has been threatened by the State Legislature's adoption of the Governor's recent budget package which, in part, attempts to solve the State's budget problems by taking local revenues from redevelopment agencies. AB X1 26, which was signed by the Governor on June, 29, 2011, immediately suspends most redevelopment agency activities and, among other things, prohibits redevelopment agencies from incurring indebtedness or entering into or modifying contracts. Then, on October 1, 2011, AB X1 26 dissolves all existing redevelopment agencies and requires their operations to be wound-down through "successor agencies".

Concurrent with the approval of AB X 1 26, the Governor authorized AB X1 27 which establishes an Alternative Voluntary Redevelopment Program in place of that which has existed for decades. Under AB X 1 27 a redevelopment agency will, notwithstanding AB X1 26, be authorized to continue to exist and carry out the provisions of Redevelopment Law. However, in order to take advantage of AB X 1 27 cities must "opt in" through the adoption of an ordinance signifying compliance with the requirements imposed by the Legislature. The deadline to "opt in" is November 1<sup>st</sup>.

Specifically, the City (not the City's redevelopment agency) must agree to make specified annual payments to the County Auditor-Controller on an on-going basis, in a fashion similar to prior state raids on redevelopment. The aggregate amount redevelopment agencies are expected to pay in the current fiscal year is \$1.7 billion and \$400 million the next. Based on the proration of these amounts by the State Department of Finance, Pasadena's share is \$6.6 million and \$1.56 million, respectively in order to continue redevelopment activities. The amount of future payments are

anticipated to be roughly the same as the FY13 amount, however, the legislation lacks complete clarity on this point and “clean-up” legislation is anticipated.

The California Redevelopment Association (CRA) and the League of California Cities have filed a lawsuit seeking a stay of the Legislature’s actions along with an action that seeks to invalidate AB X1 26 and AB X1 27. Nevertheless, in order to ensure that PCDC continues to operate regardless of the outcome of the legal action, staff recommends that the City Council adopt the attached opt-in ordinance pursuant to AB X1 27. The benefits of retaining the PCDC outweigh the costs and risks imposed by the State’s actions. During its existence, PCDC has spent millions of dollars on numerous programs and projects that have enhanced the quality of life, created employment opportunities and provided for affordable housing. Continuing operations, even under the financial constraints imposed by AB X 1 27, represents in excess of \$100 million of potential additional investment PCDC can make in Pasadena.

**COUNCIL POLICY CONSIDERATION:**

The proposed action will help ensure PCDC’s ability to further a number of the City Council’s strategic plan goals including: improving, maintaining and enhancing public facilities and infrastructure, increasing conservation and sustainability and supporting and promoting the quality of life and local economy. Moreover, by taking steps to continue the flow of tax increment to PCDC the City Council is helping to Maintain Fiscal Responsibility and Stability.

**ENVIRONMENTAL ANALYSIS:**

Under the CEQA Guidelines Article 5 (Section 15061 (b) (3) describes the “general rule.” The general rule states that CEQA applies only to projects which have the potential for causing a significant effect on the environment. In this case, participating in the “Alternative Voluntary Redevelopment Program,” under AB X1 27 is a council policy decision that does not have the potential of impacting the environment. Any future projects that stand to benefit from the City’s decision to participate within the parameters of AB X1 27 will be reviewed under its own merits. As such, approval of the budget can be seen with certainty to have no significant effect on the environment.


**FISCAL IMPACT:**

As discussed above, assuming the CRA and the League of California Cities are unsuccessful in court, in order for PCDC to continue operations the City will have to transfer approximately \$6.6 million to the State this fiscal year and \$1.56 million next.

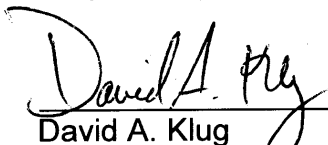
Staff has identified a variety of sources, outlined in Attachment A, where these funds can be drawn from. Given that PCDC fund balances have already been depleted as a result of previously transferring in excess of \$12 million to the State, payment of an additional \$6.6 million will require delay in a number of budget projects as well as staff reductions.

Furthermore, in order to avoid eliminating this fiscal year's \$3 million transfer to affordable housing, staff is recommending that should payment to the state be required, that a portion of this, \$3.27 million be advanced by the City's pooled cash, to be paid back with interest within 12 months of any required advance upon the receipt of future tax increment funding.

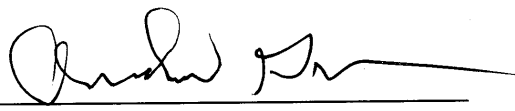
Respectfully submitted,

  
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MICHAEL J. BECK  
Chief Executive Officer

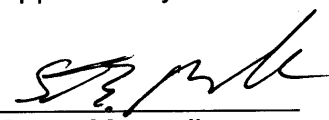
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**Attachment A - Sources for "Voluntary" payment to State of California**

<b>PCDC Projects with funds available for payment</b>	<b>Budgeted Amount</b>	<b>Available for "voluntary" payment (change to current budget)</b>	<b>Revised Budget</b>
Lake Washington Storefront Improvements	\$60,000	\$30,000	\$30,000
Lincoln Ave Development Opportunities	\$250,000	\$150,000	\$100,000
Villa Parke Development Opportunities	\$1,000,000	\$1,000,000	\$0
Downtown YWCA Improvements	\$500,000	\$200,000	\$300,000
Playhouse District Parking Structure -FY 2011	\$330,000	\$180,000	\$150,000
Old Pasadena Central Park Improvements	\$1,000,000	\$1,000,000	\$0

**Other PCDC funded projects - not recommended as sources for "voluntary" payment**

Housing Set-Aside	\$2,995,446	\$0	\$2,995,446
Lincoln Avenue Specific Plan Implementation	\$50,000	\$0	\$50,000
Old Pasadena Streetscapes and Alley Walkway Improvements-FY 2011	\$2,222,000	\$0	\$2,222,000
Pasadena Wayfinding System FY 2012	\$78,885	\$0	\$78,885
Villa Parke Community Center Improvement	\$250,000	\$0	\$250,000
Civic Center Mid-Town Improvements Phase I-2011	\$1,000,000	\$0	\$1,000,000

**Other Sources**

Debt Service for Old Pasadena Parking Garage to be paid by Old Pas Parking Fund	\$959,801	\$500,000	\$0
Staff reductions	\$267,606	\$267,606	\$0

Subtotal	<u>\$3,327,606</u>
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Balance of required transfer to come from investment pool for FY12	\$3,272,394
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**Total sources for "voluntary" payment** **\$6,600,000**