TO: James L. App, City Manager

FROM: Jim Throop, Administrative Services Director

SUBJECT: **Proposed Redevelopment Agency Project Area Expansion**

DATE: February 1, 2011

NEEDS: For the City Council to consider expansion of the Redevelopment Agency Project Area within and adjacent to the boundaries of the proposed UpTown Center Specific Plan.

FACTS:

1. The Redevelopment Plan for the Paso Robles Redevelopment Project was adopted in November 30, 1987.

2. There has been no expansion to the project area since its creation.

3. The existing project area is approximately 950 acres.

4. The City Council requested an opportunity to discuss possible expansion of the Project Area. The area suggested is approximately 214 acres (see map – Attachment A).

5. The current project area generates approximately $4.5 million gross annual tax increment. The net annual tax increment to the agency is approximately $2.5 million; with $875,000 going to Housing and approximately $1.6 million for debt service.

6. The Agency has invested over $20 million in projects, grants and assistance. Some of these projects are ongoing such as low & moderate income housing assistance. (see list—Attachment B).

7. The properties that are proposed to be added appear to meet the statutory requirements for inclusion within the Redevelopment Project Area. A portion of the proposed expansion properties are within the UpTown Center Specific Plan.

8. Expanding the Project Area as proposed may assist the implementation of the UpTown Center Specific Plan.

9. The Governor's recent State Budget Proposal would eliminate redevelopment agencies and prohibit the adoption of redevelopment plans or plan amendments, effective immediately. How this issue will be resolved in the State Legislature is unknown.

ANALYSIS & CONCLUSION:

Real property assessed value (AV) has grown 300+% since the establishment of the Project Area. Most of this growth has occurred since 2001.

Proposed additions to the project area include parcels that are within or adjacent to the proposed UpTown Centre Specific Plan, but not currently within the project area. Most of the parcels are located along the Salinas River and Paso Robles Street.

In order to expand the Project Area, the City must follow formal statutory plan amendment requirements, a process which takes more than a year, including:

1. Preparation of:

    a. A preliminary plan;
    b. A County Fiscal Report (a similar report must be submitted to the State's Department of Finance);
    c. A preliminary and final report to the legislative body documenting the blighting conditions in the area to be added, as well as an analysis of the financial feasibility of the amendment. (Copies of the preliminary are sent to affected taxing entities and the State Department of Finance and Department of Housing and Community Development);
    d. A legal description and map of the territory;
    e. The redevelopment plan amendment;
    f. An Environmental Impact Report; and
    g. An ordinance adopting the new plan.

    NOTE: These documents typically require assistance from redevelopment and fiscal experts. The City Attorney's Office would prepare all of the legal documents, notices and the plan itself, as well as review the reports prepared by outside fiscal experts.

2. A number of public meetings, optional community meetings (to promote public outreach and participation), and a noticed joint public hearing of the City Council and the Redevelopment Agency.

3. Consultation with affected taxing and other entities at designated times during the process. In addition, notices regarding the plan amendment must be sent to the State Board of Equalization, Department of Finance, and the Department of Housing and Community Development.

4. Election of a Project Area Committee (PAC) if the plan amendment would authorize the Agency to acquire property by eminent domain in a manner that affects low and moderate income persons. The PAC would hold meetings and participate in the plan amendment process. The PAC process would lengthen the time for adopting a plan amendment.

Note: Proposition 99 limits an agency's ability to acquire single-family homes by eminent domain – see discussion below under "Additional Comments – Eminent Domain")

5. File statement of plan amendment with the County Recorder. If the amendment adds territory to the project area, the statement must contain further information.

Note: It is advisable to prepare a feasibility study to determine the projected financial benefits of bringing additional territory into the existing redevelopment area. The study could cost up to $30,000; it can be used to prepare the Preliminary Report.

Effect of Adding Territory to the Existing Redevelopment Project Area –

- Tax increment funds generated throughout the redevelopment plan project area may be used anywhere in the project area.

- Tax increment funds may be available immediately to fund redevelopment activities in the added territory.

- Amending the existing redevelopment plan to add new area would not affect the validity of the existing plan.

    - The existing Redevelopment Plan remains in effect until November 30, 2028, and the time limit for repaying indebtedness is November 30, 2038.
    - The time limits that would apply to the area proposed to be added would be (i) 20 years after adoption to incur indebtedness; (ii) effective for 30 years after adoption; and (iii) 45 years for the repayment of debt.

- The Agency would be obligated to pay affected taxing entities a portion of tax increments generated from the added area, either pursuant to existing agreements, or if not applicable to this amendment, then in accordance with a statutory formula (see discussion under "Pass-Through Payments").

Additional Considerations –

1. **Eminent Domain –**

    A redevelopment agency may acquire private property by eminent domain for private development because redevelopment activities further the public purpose of eliminating blight.

The redevelopment plan must provide the agency with specific eminent domain authority, which can be restricted either to certain types of uses, or by geographic area.

Proposition 99 prohibits acquiring owner-occupied single-family homes for the purpose of conveying it to a private person. Exceptions exist for public health and safety, preventing serious repeated criminal activity, responding to an emergency, remedying hazardous environmental contamination that poses a threat to public health and safety or for a public work or improvement.

2. **Affordable Housing** –

At least 20% of all tax increments must be set aside for affordable housing. Thus, the addition of territory would increase the amount of money that must be set aside for this purpose.

If there are new or substantially rehabilitated dwelling units produced within the project area, the agency must ensure that a certain percentage of such units are affordable to low- and moderate-income households.

3. **Current Definition of Blight** –

The Community Redevelopment Law requires specific, clearly articulated, quantifiable evidence to support a finding of blight. Redevelopment agencies must carefully investigate and document the conditions of both economic and physical blight within a proposed project area.

The physical and economic conditions of blight must be "so prevalent and so substantial that it causes a reduction of proper utilization of the area to such an extent that it constitutes a serious physical and economic burden on the community that cannot reasonably be expected to be reversed or alleviated by private enterprise or governmental action, or both, without redevelopment".

The added area must be predominately urbanized which means that at least 80% of the territory in the project area either has been or is developed for urban uses, or is an integral part of an area surrounded by land that has been or is developed for urban uses. Note: That requirement is not an issue for the area proposed to be added.

4. **Pass-Through Payments** –

The Agency currently has agreements with various taxing entities to pay a portion of the tax increments from the existing project area. Those agreements will need to be reviewed to see if they would include payments from the added area. If they did not, then the Agency would be required to pay each taxing entity its proportionate share of 20% of the new tax increments from the added area in accordance with a formula set by statute.

The City could elect to receive its share of those pass-through payments. In addition, all the taxing entities except the city would get an additional percentage payments beginning in the 11th and 31st fiscal years after the adoption of the plan amendment.

POLICY REFERENCE: Cal. Health & Safety Code sections 33031; 33328; 33333; 33333.2; 33333.6; 33334.2; 33344.5; 33349; 33352; 33355; 33360.5; 33367; 33373; 33385; 33413; 33451; 33451.5; 33452; 33453; 33454; 33454; 33457.1; 33458; 33607.7.

FISCAL IMPACT: Excluding staff expense, it is estimated that the feasibility study would cost $30,000, and the complete plan amendment process upwards of $200,000.

In May 2010, the State took $1,200,000 from the RDA to balance its budget. In FY2011 another $250,000 will be taken. Both of these take-aways were funded by internal loans from LMIH funds. These loans must be paid back within five years.

All excess tax increment revenues will be needed to repay the loan in the allotted time period. There are no funds available to pay for the expansion plan. In addition, the Governor has proposed eliminating redevelopment agencies as part of his State Budget Proposal.

Pros/Cons:

- Additional territory would generate more incremental property tax revenue
- Additional blighted areas could be improved furthering the goals of the Uptown/Town Centre Specific Plan
- Improvement in blighted areas might stimulate business growth
- Improvement in blighted areas would help increase assessed values

- Expanding the project area will reduce the amount of future revenue that would otherwise accrue to the General Fund from property tax growth in the added area, thus exacerbating General Fund financial challenges.
- Considerable staff time would be needed to complete the entire process at a time when staffing is down nearly 30%
- Redevelopment and financial experts would need to be hired for the expansion project, with a projected cost of at least $200,000 – and there are no RA funds to cover the cost.
- Identification of blighting conditions may cause property marketing concerns

OPTIONS:

A. City Council indicate course of action.

B. Amend, modify, or reject the option above.

Attachment A – Map of Project Area and Proposed Expansion
Attachment B – History of completed projects with the RDA project area

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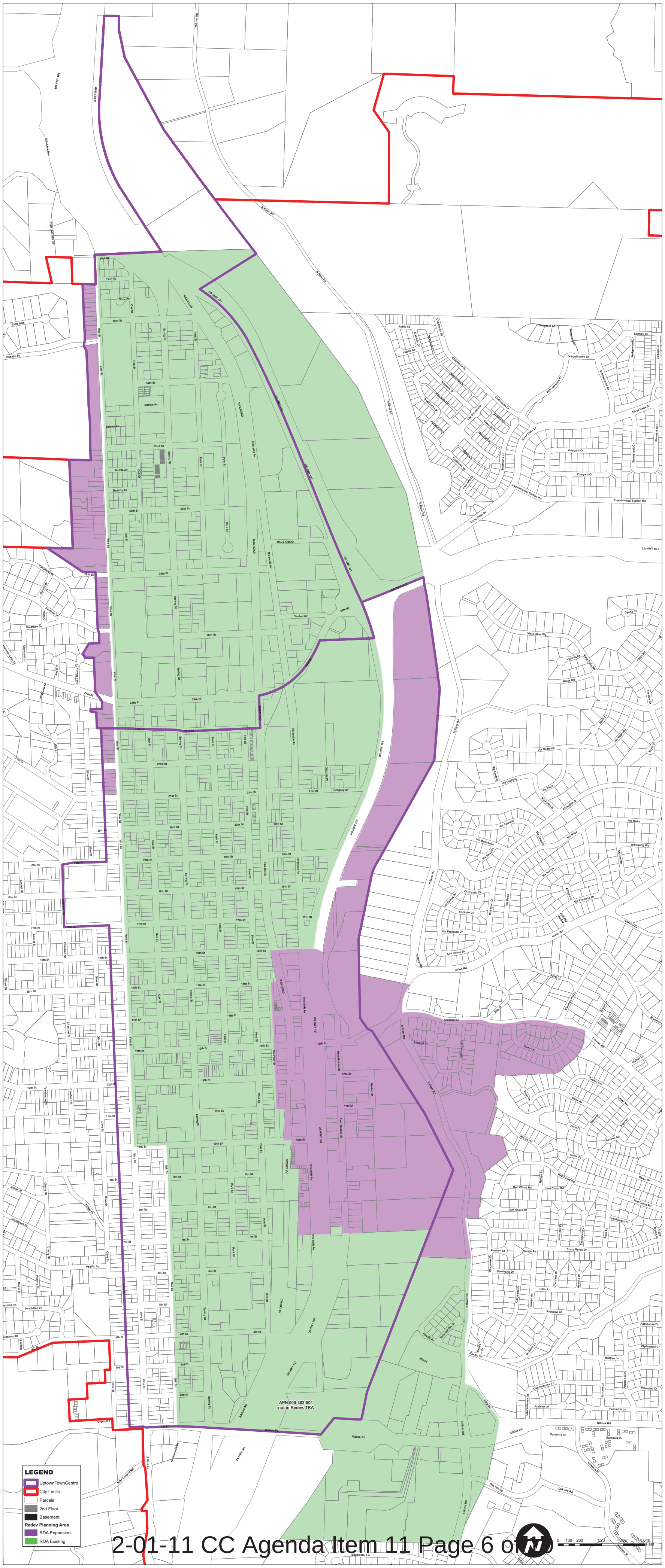
ATTACHMENT A



HISTORY OF REDEVELOPMENT ACTIVITY: 1987-2009

1. Projects/Programs Assisted with Redevelopment Funds

1.1 List of Projects/Programs

City Park Improvements: $620,000 was spent between 1990 and 1992 to replace deteriorated asphalt walkways with brick pavers, install a fountain, new planters and lighting. This work included installation of pavers and traffic-calming planter "bulb-outs" in 12th and Park Streets.

Facade Improvement: $96,200 was spent in 1991 and 1992 to provide zero interest, deferred payment loans to restore the facades of 12 buildings located in the downtown core to their original architectural character.

Oak Park Playground Improvements: $56,000 was spent in Fiscal Year 90/91, to improve the playground at Oak Park Public Housing, which is located within the Project Area.

Veterans' Memorial (Niblick) Bridge Expansion: The Redevelopment Agency participated in funding bridge expansion, coupled with area regional drainage improvements. The Redevelopment Agency provided $2 million in Redevelopment Funds via an Owner Participation Agreement (OPA) with the owners and developers of Woodland Plaza II.

Graffiti Removal Program: $15,000 in Redevelopment Funds were spent in 1992 to assist in the implementation of the City's Re-Organized Graffiti Removal Program.

Purchase of Interim City Hall: $1,582,900 was spent in 1992 to purchase a property at 801 – 4th Street, which was used for nearly 3 years as an interim City Hall during construction of the new Library/City Hall.

Main Street Contract Services: Between 1988 and 1998, a total of $640,000 in Redevelopment Funds were used for Main Street contract services.

Project Area Tourism Development: Between 1991 and 1995, a total of $244,500 in Redevelopment Funds was used for contract services provided by the Chamber of Commerce and San Luis Obispo County Visitors and Conference Bureau (VCB).

Public Improvements Related to Park Cinemas: Park Cinemas, a 9 screen movie theater, located at 1100 Park Street opened in December 1997. Development required construction of a regional storm drain beneath the theater. The Agency entered into an Owner Participation Agreement (OPA) with the developer of the theater by which the Agency paid $184,752 for the cost of the storm drain improvements and street improvements (curb, gutter, sidewalks, and pavers).

Uptown/Town Centre Specific Plan: In 2008, the Agency allocated $1.5 million for the preparation of a specific plan for the area bounded by the Salinas River, Vine Street, 1st Street, and 38th Street/Hot Springs Property.

Carnegie Library Repair: In 2008, the City undertook the repair of earthquake damage (from the 2003 San Simeon Earthquake), seismic retrofit, and accessibility rehabilitation of the Carnegie Library Building in City Park. $400,000 in redevelopment funds were used to supplement $2.4 million in funds from the Federal Emergency Management Agency (FEMA).

City Hall Parking Lot (Sulfur Spring) Repair: In 2009, the Agency approved an allocation of $300,000 to supplement FEMA funds to repair the damage from the 2003 San Simeon Earthquake.

Library Construction: In 1993, via a reimbursement agreement with the City, the RDA is obligated to reimburse the City for the debt service payments arising out of the construction financing for the new City Library. Total debt service, including interest is approximately $9.6 million.

Spring Street and 24th Street Reconstruction at Flamson Middle School: In 2009, the Agency allocated $347,000 in redevelopment funds to replace curb, gutter, sidewalks, and landscaping in Spring and 24th Streets adjacent to Flamson Middle School, which was being rebuilt after the 2003 San Simeon Earthquake.

Child Development Center: In 2009, the Agency provided $240,000 in assistance, plus another $80,000 per year for 20 years, to the San Luis Obispo County Office of Education for the development of a center for childhood school readiness program and parent education, in conjunction with the First 5 Commission of San Luis Obispo County.

1.2 Debt Financing

Community Redevelopment Law requires agencies to operate in debt in order to receive tax increment funds.

To assist in financing the programs listed above, the Agency has undertaken the following:

Tax Increment Bonds:

a. In 1991, the Agency sold $3,500,000 in bonds with a 20 year maturity. From this sale, a net of $3,040,000 was available to be used for:

- Repayment to City General Fund for loans of approximately $1.5 million, of which approximately $800,000 was used for public improvements (including City Park Renovation and Facade Improvement Program) and approximately $700,000 was used for redevelopment operations and Chamber of Commerce subsidy.

- Purchase of Interim City Hall.

b. In 1996, the Agency sold $3,630,000 in bonds to refinance the 1991 bond issue.

c. In 2000, the Agency sold $4,250,000 in bonds for the following purposes:

(1) To finance the $2 million contribution to the Veterans' Memorial Bridge that was paid with tax increment revenue attributable to Woodland Plaza II and

(2) To refinance existing debt to the City.

d. In July 2009, the Agency sold $12 million in tax increment bonds. From this sale $1.7 million will be used to repay a portion of the Agency's debt to the General Fund for constructing the Library and about $3.2 million will be used to undertake the following activities:

(1) Provide matching grant funds to replace 21st street - $450,000;
(2) Replace City Park restrooms - $300,000;

(3) Reimburse General Fund for City portion of Sulfur Spring Remediation and City Hall Landscape - $300,000;

(4) Rehabilitation of pedestrian path of travel Spring Street and Downtown, consistent with the Americans with Disabilities requirements - $2,200,000.

Loan from City's Water Fund: In 1992, the City Council approved a $4,405,000 loan to the Agency, due in 20 years from the City's Water Fund. As of July 1, 1994, the Agency had only drawn down $960,000 of which approximately $800,000 was used for public improvements related to the development of Woodland Plaza II and approximately $160,000 was used for renovation of the interim City Hall building. The balance has never been drawn down and it is not expected that any further amounts will be drawn down against this note. These loans were paid off with the 2000 TAB bond issuance.

Owner Participation Agreement (OPA) with Woodland Plaza II for Infrastructure Improvements: In 1993, the Agency entered into an OPA for the funding of capital improvements such as regional storm drains, Veterans' Memorial Bridge expansion and various street improvements, including signals. The City provided $3.6 million for the public improvements. The Veterans' Memorial Bridge expansion and South River Road improvements were financed via tax increment revenues attributable to the development. Tax allocation bonds were issued for the project. In return, the Agency keeps all tax increment revenues in excess of the amount needed to service the debt for the tax allocation bonds.

Loan from the General Fund: For several years, the City Council approved loans to the Agency to cover shortfalls in the Agency's annual budget. In 1997 the Agency approved a Promissory Note for $1.1 million to repay the City's General fund. This loan was paid off with the 2000 TAB bond issuance.

2. Programs Assisted with Low and Moderate Income Housing (LMIH) Funds

Housing Rehabilitation Loans: Between 1988 and 1991, the Agency provided $49,300 in LMIH Funds to supplement 1988 CDBG funds for housing rehabilitation.

Los Robles Terrace: In 1991, the Redevelopment Agency granted $119,730 of LMIH Funds to assist the development of Los Robles Terrace, a 40 unit apartment complex for low- and very low-income elderly and physically-disabled persons.

George Stephan Center: In Fiscal Year 1993/94, $73,800 in LMIH funds were used to install modular units to comprise an interior recreation/activity center at Oak Park Public Housing, which consists of 148 low and very low income apartment units.

Disaster Assistance Loan: In 1995, a loan of $10,000 in LMIH funds was made to a low income homeowner to supplement federal disaster assistance funds to repair damage to the owner's home caused by heavy rains.

Youth Arts Foundation Center: In 1998, the Redevelopment Agency purchased a 0.66 acre vacant property on the northwest corner of Spring and 32nd Streets from the City for $135,000 in LMIH funds.

First-Time Homebuyers Assistance: The Agency has allocated approximately $30,000 in LMIH Funds as a match for $600,000 in federal HOME funds to make low-interest, deferred-payment second trust deed loans for low income first-time homebuyers.

Habitat for Humanity: In 2002, construction was completed on three single family homes for low income households. A grant of $35,000 in LMIH funds assisted payment of the City's development impact and building permit fees.

Canyon Creek Apartments: In December 2006, construction was completed on a 68 unit low income apartment project. This project was assisted with a grant of $559,000 in LMIH funds.

Creekside Gardens Apartments: In February 2005, construction was completed on a 29 unit low income senior apartment project. This project was assisted with a grant of $635,000 in LMIH funds.

Chet Dotter Senior Housing: In January 2008, construction was completed on a 40 unit low income senior apartment project. This project was assisted with a grant of $25,000 in LMIH funds for pre-development costs and a zero-interest 55 year forgivable loan of $1.72 million in LMIH Funds.

Hidden Creek Village: In 2009, the Agency reserved $1 million to assist the Housing Authority of the City of San Luis Obispo develop an 81 unit low income family apartment project. This project was granted Federal Tax Credits in September 2009 and a building permit must be issued by February 2010 to retain the credits.

3. Time Limits of the Redevelopment Plan:

a. Commencement of Eminent Domain Proceedings: On January 4, 2000, the City Council adopted Ordinance 786, N.S. which amended the Redevelopment Plan to enable the authorization to use eminent domain in the Project Area another 12 years (i.e., through 2011).

b. Establishments of Loans, Advances, and Indebtedness to Finance the Redevelopment Plan: On June 15, 2004, pursuant to SB 211 and SB 1045, the City Council adopted Ordinance No. 876 N.S., which eliminated the time limit on the establishment of loans, advances, and indebtedness that had been established via Ordinance 683 N.S. (adopted January 17, 1995). The Agency may now establish loans, advances and indebtedness as late as November 30, 2028.

c. Effectiveness of the Redevelopment Plan: Ordinance No. 876 N.S. also extended the life of the Redevelopment Plan by one year. It will now be active until November 30, 2028.

d. Repay Indebtedness with the Proceeds of Property Taxes: Ordinance No. 876 N.S., also extended the period for paying indebtedness and receiving property taxes to 10 years following expiration of the plan. The Agency may pay indebtedness and receive property taxes until November 30, 2038.