MEETING DATE: JANUARY 31, 2012

TO: CITY COUNCIL

FROM: CITY MANAGER'S OFFICE

SUBJECT: BUDGET IMPACTS RELATED TO DISSOLUTION OF THE

FULLERTON REDEVELOPMENT AGENCY

Approved for Agenda:

City Manager's Office

SUMMARY

A proposal for budget and staffing changes necessitated by the dissolution of the Redevelopment Agency. This proposal addresses preliminary measures to meet the February 1, 2012 dissolution date. The numbers referenced in this report have been revised from the original budget to incorporate recent changes from the approved labor contracts. They do not include the Housing Fund unless otherwise stated.

RECOMMENDATION

- 1. That City Council approve the following proposal in concept. All approved budget amendments will be incorporated and presented for approval at the mid-year budget review.
- 2. That City Council adopt Resolution 2012-11 and the class specifications for Project Manager I/II referenced therein.

PROPOSED COSTS

The dissolution of the Redevelopment Agency (Agency) will require reallocation of some expenses and elimination of other expenses previously borne by the Agency. Staff anticipates the ability to retain funding in the amount of \$250,000 per year for administrative costs associated with the City functioning as the Agency successor agency. These funds may be used to provide staffing and support services for the successor agency and are addressed later in this report.

Impacts to the General Fund and other funds due to the funding reallocations referenced herein are minimized by expenditure savings from vacant funded positions. Vacancies that arose in the past year have been left unfilled in anticipation of the expected loss of Redevelopment.

DISCUSSION

The approval and adoption of the State Budget for Fiscal Year 2011-12, included enactment of ABx1 26 (Stats. 2011, chap. 5, "ABx1 26") (the "Dissolution Act"), which had the effect of dissolving all redevelopment agencies in the State of California. A companion measure, ABx1 27 (Stats. 2011, chap. 6, "ABx1 27") (the "Continuation Act") was also enacted, allowing communities to avoid dissolution of redevelopment agencies, provided they were willing to make payments to the State as part of an alternative voluntary redevelopment program.

The California Redevelopment Association, League of California Cities and the Cities of San Jose and Union City responded to the Dissolution Act and the Continuation Act by filing a lawsuit in late July 2011 with the California Supreme Court claiming that the Acts were unconstitutional. On December 29, 2011, the California Supreme Court issued its opinion in the case of *California Redevelopment Association, et al. v. Ana Matosantos, etc., et al.*, Case No. S194861, invalidating the Continuation Act, but upholding the validity of the Dissolution Act. As a result of this decision all redevelopment agencies will be dissolved with no option to continue in exchange for payments to the State.

Dissolution of redevelopment agencies was delayed by the Supreme Court decision until February 1, 2012. There is legislation pending that could further delay implementation of the Dissolution Act, but it is unclear if there is support in the Legislature for the matter, nor any clear indication by the Governor that he would sign such a bill if it should be passed. Separate legislation is being considered that may impact the Agency's Low and Moderate Income Housing Fund.

Staff has developed a proposal to begin dissolution of the Agency. This proposal is based on Council's priorities established by the FY2011-12 and FY 2012-13 two year budget, on the assumption there will be no further delays of the dissolution deadline, and pending Legislation is successful clarifying that housing funds will remain under City control. Some of the actions recommended in this proposal are short term solutions to meet the February 1 deadline. Staff will continue to work on longer term solutions and will bring back additional recommendations to Council in the coming months.

This report will address staffing, programs and operations, and capital projects separately as each is uniquely impacted by variables and uncertainties.

1. Staffing

The proposal for meeting the target for salary and benefit expenditure reductions is addressed on a department by department basis and contains recommendations for

both reallocation of funding and position elimination. As mentioned above, reallocations to the General Fund and other funds year will be primarily offset by savings in positions held vacant in anticipation of the dissolution of the Redevelopment Agency.

Council direction to eliminate positions will activate the layoff procedure. The next step in the process will be to meet and confer with the bargaining units representing the impacted positions for the purpose of discussing alternatives to layoffs and to review determinations by Human Resources of the seniority of employees in the classifications impacted by position elimination. Thereafter, layoff notices will be provided to the least senior employee(s) in the classifications. City rules require thirty days notice of layoff. The laid off employee will be notified in his/her notice of layoff of any available bumping rights and will have five working days to notify the City of the decision to exercise bumping rights. This may trigger a new layoff notice for the "bumped" employee and the start of a new 30 day period. Funding for these positions during implementation of the layoff procedure will require reallocation of staffing expenditures during this limited period to alternate funds. Non-regular employees may be removed from their assignments without layoff notice.

Staff has prepared this proposal to achieve the necessary reduction in costs with the least disruption to service in keeping with priorities set by Council during the budget process.

A. Redevelopment Agency

The dissolution of the Agency requires elimination of all staffing expenditures. Because a portion of the Agency's staff is charged to the Housing Fund, the numbers in this section incorporate the Housing Fund.

The following proposal would achieve the necessary reductions:

- Eliminate the vacant Director of Redevelopment position.
- Eliminate the Redevelopment Manager position and transfer the incumbent to the vacant Fiscal Services Manager (a lateral reassignment).
 Duties related to administration of the successor Agency will be assigned to this position in addition to other duties.
- Reclass the three Redevelopment Project Managers to a new lateral classification of Project Manager included for Council review and approval. The new classification allows the Project Managers to be assigned as follows:
 - O Housing Legislation is currently working its way through the approval process to clarify the intent to "carve out" housing money from the elimination of the Agency and allowing local agencies to maintain housing programs. This proposal assumes Housing funds will remain with the City. The Project Manager moved to this assignment will be transferred to the Community Development Department and will continue to provide project management for the City's Housing programs.

- Capital Projects –The Project Manager moved to this assignment will be transferred to the Engineering Department and will continue to provide project management over existing 2005 Redevelopment Bond funded CIP projects. Funding for this position will be provided primarily through bond funds as part of project costs as a direct charge rather than an overhead charge from Redevelopment. A portion (25%) of funding for this position will be charged to the administrative costs allocated to the successor agency for the purposes of managing currently funded redevelopment projects.
- Economic Development Staff recommends Council approve funding for this position through General Funds. The Project Manager moved to this assignment will continue to manage economic development projects through the City Manager's office.
- Eliminate the Administrative Assistant position.
- Eliminate the funded Clerical III position currently filled through a nonregular clerical assignment.

Total approved Agency funding for salaries and benefits: \$861,878
Total recommended transferred to General Fund: \$120,188
Total recommended transferred to other funds: \$384,497
Total recommended through position elimination: \$357,193

B. Community Development Department

Due to the significant portion of Agency funding in the Community Development Department salary and benefits budget, meeting target expenditure reductions requires reduction in staffing.

The following proposal would achieve the necessary reductions:

- Eliminate one Senior Planner position. This position provides a range of services for the Planning and Development Services Division that will be redistributed to Department staff.
- Reallocate funding for one Senior Planner position to Measure M2 Turnback funds. The priorities for this position will refocus on regional and subregional transportation planning activities.
- Defund vacant Plan Check Engineer position Staff recommends leaving the position in the budget without funding pending further review of real estate development activity in preparation for the FY 2013/14 budget.
- Eliminate one Code Enforcement Officer position. Elimination of this position reduces staffing to five code enforcement positions. The loss of the position will limit the focus of the Division to complaint-driven cases.
- Eliminate one Clerical III position. The position supports the Code Enforcement and Building Divisions. Responsibilities will be shifted to other positions or be eliminated through technology improvements.

Total approved Agency funding for salaries and benefits:	\$ 367,147
Total recommended transferred to General Fund:	\$ 0
Total savings from other funds:	\$ 38,560
Total recommended position elimination/defunding:	\$ 405,707

C. City Manager

Transfer approved Agency salaries and benefits expenditures in the Redevelopment Fund to the General, Water, Refuse and Sewer Funds with \$59,000 of the City Manager salary allocated to the successor Agency funding mentioned above.

Total approved Agency funding for salaries and benefits:	\$ 242,159
Total recommended transferred to General Fund:	\$ 94,688
Total recommended transferred to other funds:	\$ 147,471

D. Administrative Services Department

Transfer approved Agency salaries and benefits expenditures in the Redevelopment Fund to the General and Refuse Funds with \$72,000 of the Fiscal Services Manager salary allocated to the successor agency funding mentioned above.

Total approved Agency funding for salaries and benefits:	\$ 164,552
Total recommended transferred to General Fund:	\$ 122,574
Total recommended transferred to other funds:	\$ 41,978

E. Engineering/Maintenance Services Department

Transfer approved Agency salaries and benefits expenditures in the Redevelopment Fund to the General, Sanitation, Water, Sewer, Sewer & Drainage Capital Outlay, and Capital Projects Funds.

Total approved Agency funding for salaries and benefits:	\$	313,473
Total recommended transferred to General Fund:	\$	63,988*
Total recommended transferred to other funds:	\$	249,485

^{*} Costs are expected to be absorbed through savings from position vacancies through the remainder of the fiscal year.

F. Parks & Recreation Department

Transfer approved Agency salaries and benefits expenditures in the Redevelopment Fund to the General (Parks & Recreation) Fund and reduce part-time (non-regular) hours for clerical and support staff.

Total approved Agency funding for salaries and benefits: \$ 114,098 Total recommended transferred to General Fund: \$ 114,098

2. Programs and Operations

Most of the \$2.94 million in programs and operations funded by the Redevelopment Agency pertained to redevelopment and economic development activities and will therefore be eliminated. This includes such programs as community and rehabilitation programs and economic development promotion.

However, there are some costs that will remain out of necessity or contractual obligation, such as legal fees, utility and maintenance costs in the downtown area, and allocated building maintenance costs. These costs amount to approximately \$464,305 as identified in Attachment B of this report. Of this amount, \$375,305 will be borne by the City, with all but \$30,000 charged to the General Fund. Another \$89,000 of the total will be charged as the City's administrative fee to the Successor Agency.

Some costs will need to be addressed when preparing the 2012-13 budget. Programs such as First Night, tree lights and the holiday decorations will need to be reconsidered as the City does not have funding available to continue them.

3. Capital Projects

Redevelopment Agency funding of new capital projects was stayed by the State Supreme Court. Existing projects contracted prior to July 2011 are active and in progress. Staff will return with a revised priority plan in June 2012.

Summary:

Total Agency funds approved for staffing expenditures:	\$ 2,063,307
Total Agency staffing expenditures recommended for transfer to General funds:*	\$ 515,536
Total Agency staffing expenditures recommended for transfer to other funds:*	\$ 784,870
Total Agency staffing expenditures recommended for elimination:	\$ 762,901
Total positions recommended for elimination:	8

^{*}Reallocations to the General Fund and other funds year will be primarily offset by savings in positions held vacant in anticipation of the dissolution of the Redevelopment Agency.

^{*} Costs are expected to be absorbed through savings from position vacancies through the remainder of the fiscal year.

CONCLUSION

As detailed above, the dissolution of redevelopment will have a significant fiscal impact on the City. Due to the near fluid status of these changes, staff anticipates seeking additional City Council direction in the coming months.

If all changes are adopted as proposed, eight budgeted positions will be either eliminated or de-funded resulting in residual impacts to services in Planning and Code Enforcement. In addition, approval of this proposal will defund the following programs:

- First Night
- Downtown tree lighting
- Holiday decorations
- Banners
- Federal lobbyist

Although a portion of adjustments include additional General Fund expenditures, this is primarily accomplished through savings resulting from positions left vacant during the past year. Furthermore, it is expected that the increase in direct property tax payments to the City will be adequate with an amount in reserve to fund unexpected expenses or other general fund losses.

Lastly, the most significant immediate impact of the loss of these funds is the termination of the Redevelopment funded Capital Improvement Program projects. And although the City currently has approximately \$40,000,000 in unobligated 2005 Bond proceeds, it is not clear that the State or the Successor Agency will release these monies for previously indentified capital projects.

Joe Felz City Manager

JJ/GRB:jmr

Attachments: A) Resolution No. 2012-11

B) Operating Costs to be borne by City or Successor Agency

Operating Costs to be borne by City or Successor Agency

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	Annualized	
Description of Cost	Amount	Comments
Operating costs borne by the Succe	essor Agency	':
Staffing	ф го 000	Observe annihas and southills founding society there recognite to a letter Comprised
Executive Director (20%) Redevelopment Mgr. (50%)		Charge applies only while funding exists, then reverts back to Gen Fund
Redevelopment lingt: (50%)	72,000	Provides temporary savings to Gen. Fund while funds are available, then then amount will be absorbed into budgeted Fiscal Services Mgr position
Project Mgr (25%)	30 000	Provides temporary savings while funds are available, then costs will be
1 Toject Mgr (2370)	30,000	transferred to Capital Projects Fund
Operational		,
Operational Legal fees	75 000	To assist through transitionary period
Audit Expense		Assuming some sort of report will be required by the State
Misc		Office expense (copier lease until it is terminated or absorbed by
		Housing Fund); records management
Total costs to Successor Agency	\$ 250,000	=
Operating Costs Borne by the City:		
General Fund		
Banners in downtown area	5,900	Will be provided through 6.30.12, then re-evaluated in 12-13 budget
First Night event	86,000	Council to provide direction on whether to keep and how to fund
Downtown tree lights	60,000	Lease terminates in September - staff will obtain future estimate and
		return to Council for direction on whether to continue or eliminate
Holiday decorations		Staff will return to Council for direction with 12-13 budget
FTC graffiti film	2,400	Maintenance Services can absorb cost in 11-12, but will need to budget
		in future years
Property taxes		To be reallocated throughout general fund budget
Property fence rentals	750	Maintenance Services can absorb cost in 11-12, but will need to budget
Maintenance of downtown area	50,000	in future years Sidewalk and landscape maintenance, facility maintenance at FTC and
Maintenance of downtown area	30,000	parking structures
Overhead allocations	48.155	Building Maintenance, Custodial Services, Facility repair, vehicle
	,	maintenance and replacement costs that will be reallocated to other
		departments
Electricity	30,000	Costs for parking lots, downtown lights, etc. Will be charged to the
		Maintenance Services Budget
Subtotal of costs to General Fund	\$ 345,305	
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Capital Projects Fund		
Townsend Public Affairs	30,000	Transfer lobbyist costs to Capital Projects Fund
Total costs to City	\$ 375,305	
•		=
Other Costs:		

FTC trash collection

\$

City properties are provided trash pickup at no cost - staff anticipates that 4,500 this cost will be absorbed by MG Disposal