

CITY OF MOUNTAIN VIEW  
MEMORANDUM

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DATE: January 13, 2011

TO: City Council

FROM: Ellis M. Berns, Assistant Community Development Director/  
Economic Development Manager

SUBJECT: JANUARY 18, 2011 STUDY SESSION—ANALYSIS OF  
REVITALIZATION AUTHORITY SUNSET OPTIONS

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INTRODUCTION

In 1969, the Mountain View City Council created the Mountain View Revitalization Authority (Authority) and adopted the Revitalization Plan (Plan). The Plan area includes approximately 68 acres comprising 16 City blocks, bounded by Evelyn Avenue on the north, View Street on the east, Mercy Street on the south and Franklin Street on the west (Attachment 1). The Plan has helped guide commercial, residential and public development and improvements in the downtown. As a direct result of these revitalization efforts, the City has seen an increase in the assessed value of the District from \$21.0 million in 1969 to today's assessed value of over \$418.0 million.

At the present time, the Plan for the Authority expires on April 9, 2011, and the June 30, 2010 outstanding indebtedness of approximately \$27.0 million (consisting of debt payments, housing set-aside and administrative reimbursement), must be paid by April 9, 2019. Based on preliminary projections, it is estimated that the Authority could accumulate enough tax increment to retire the debt in FY 2015-16 and the taxing entities, including the school districts, will receive their share of the tax increment in FY 2016-17.

The purpose of this Study Session is to: (1) review with the City Council/Authority the options for possible extension of the Revitalization Authority Plan that would allow the Authority to continue to operate during a limited term extension; and (2) for the Council/Authority to provide input on whether or not to proceed with a two (2) year extension of the Plan.

BACKGROUND

The Mountain View Revitalization Authority has been the catalyst for downtown that over the years has attracted significant public and private investments. Revitalization

has provided the funding for projects and programs that has eliminated blight and improved the overall character and quality of the downtown that has resulted in a vibrant, pedestrian-oriented destination, location and focal point for the community.

At the March 2, 2010 Study Session (Attachment 2), staff provided the Council/ Authority with preliminary background information on the sunseting of the Authority, opportunities for extension and strategies to maintain the momentum and continue to strengthen downtown's growth and vitality. Staff has proceeded with implementation of the strategies and studies outlined in the Study Session report (see Attachments 3 and 4) and will be providing updates to the City Council over the next few months on the progress of these activities. In addition, the Council asked staff to return with more detailed analysis of the alternatives for extension of the Authority, including the potential for entering into pass-through agreements with the school districts and the fiscal impact of these alternatives.

Staff completed a detailed analysis if the Authority is allowed to sunset on April 11, 2011 and then four (4) potential options for extension, including the possibility of entering into pass-through agreements with the local school districts and extending the debt repayment limit one year from April 9, 2019 to April 9, 2020. Following is a summary of the analysis if there is no extension and the four options:

#### **The Plan Expires April 9, 2011—No Extension**

The existing redevelopment plan is set to expire on April 9, 2011 and, at that time, operational funding will be reduced to a minimal amount. The full annual tax increment (TI) will continue to be remitted to the Authority until sufficient funds are accumulated to repay the outstanding indebtedness, but in no event later than April 2019. The 20 percent housing set-aside will continue as long as the Authority receives annual TI.

The Council direction to staff has been to proceed with various studies for improvements to the project area and to evaluate the acquisition of strategic property utilizing the available balance. Any real property transaction must be finalized by April 9, 2011 as no new debt can be incurred. The remaining estimated available balance (after current studies and property acquisitions) is \$5.5 million and is available for redevelopment purposes, and the current indebtedness balance is approximately \$27.0 million. The Authority can spend any available funds until April 9, 2011 on a "pay-as-you-go" basis.

Allowing for operational expenditures, the 20 percent required housing set-aside and assuming all of the remaining \$5.5 million balance is used for redevelopment purposes rather than applying it to the existing debt, it is projected the Authority will accumulate

sufficient funds to repay all outstanding indebtedness during FY 2015-16 and the school districts and other taxing entities would begin to receive their full share of property tax in FY 2016-17

### Extension Options

- **Option 1—No Extension (Apply Balance and Tax Increment to Pay Off the Debt)**—This option analyzed the use of the current available balance and apply it towards the outstanding debt; the Plan would not be extended and the Authority would cease operations. The taxing entities would begin receiving their full share of property taxes in FY 2015-16. Under this option, the Authority would not use the balance for any further redevelopment purposes; however, with respect to this option, Council has directed staff to proceed with using these remaining funds for redevelopment purposes such as strategic property acquisitions.
- **Option 2—SERAF (Supplemental Educational Revenue Augmentation Fund) One-Year Extension**—This option would allow the Plan effectiveness date to be extended for one additional year, until April 2012. The current available balance of \$5.5 million would be used for revitalization activities. Under this option, the taxing entities would start receiving their full share of property tax in FY 2016-17.
- **Option 3—ERAF/SERAF (Educational Revenue Augmentation Fund) Two-Year Extension**—This is the preferred option and is discussed in more detail below.
- **Option 4—SERAF and Extend Debt Limit/Statutory Pass-Through**—This option would extend both the life of the Plan and the date to pay off the debt. Due to the required SERAF payment the Authority has made to the State, the Authority can extend the Plan effectiveness date from April 2011 to April 2012. However, if this option is selected, the Authority would be required to enter into mandatory pass-through agreements with all the taxing entities including the school districts which would delay receipt of property taxes until at least FY 2017-18. This option also assumed that the available balance of \$5.5 million would be used for redevelopment purposes. The deadline to pay off the debt could also be extended from April 2019 to April 2020 which could further delay the taxing entities from receiving their share of the property taxes.

Staff also evaluated the possibility of amending the Revitalization Authority Plan which could allow up to a 10-year extension. However, this option requires a determination and finding that "blight" still exists in the Authority's project area and it was determined that while a few blighted parcels exists in the Authority's project area, there is not enough contiguous blight to justify a 10-year extension.

In evaluating the alternative to extend the debt repayment limit one year would require the Authority to enter into mandatory pass-through agreements with all the taxing agencies, including the two school districts, and extend the date of when the taxing entities would begin to receive their share of the property taxes.

Each of the options above were evaluated based on impact to the Authority programs and projects; when the various taxing agencies, including the school districts, would begin to receive their full share of the property taxes; impact to the City's General Fund. The impact on the 20 percent Housing Set-Aside fund was also considered but staff concluded that any extension had little impact on the fund. As long as the Authority continued to receive tax increment, 20 percent would be set aside for housing.

Based on this analysis, the option that offered the City/Authority the most flexibility is Option 3, ERAF/SERAF Two-Year Extension, until April 2013. This option would require the City/Authority to adopt an ordinance to extend the Authority for two additional years in order to not impact the various taxing entities including the school districts by the extension. It is also recommended that any additional tax increment (TI) accumulated during this two-year extension period would be reserved to pay off the Authority debt when the Authority operations expire in 2013. In addition, the operating expenditures that are not transferred to the General Fund because of the extension would be deducted from the \$5.5 million balance, resulting in an estimated \$4.7 million balance for redevelopment purposes. However, if property taxes decline further than projected, it could affect the timing of the repayment of the debt and when the districts and other taxing entities receive their share of the property taxes.

There are several advantages to Option 3 to extend for two (2) years:

1. **Continues revitalization programs and projects, including capital improvement projects**—This option would allow the Revitalization Authority to maintain many of the programs and projects described above and utilize the estimated balance of \$4.7 million for various redevelopment activities that would include: (1) continue to encourage property assemblage and further strategic property acquisitions to promote growth and development; (2) continue retail recruitment, including the possibility of attracting a grocery store; (3) complete downtown market feasibility analysis that will identify strategies and programs to further encourage retail growth in the downtown once the Authority sunsets; (4) identify and evaluate alternative funding mechanism that may be put in place to maintain the downtown once the Authority sunsets; and (5) complete a comprehensive downtown parking analysis and begin the process to develop programs and policies to address future parking demand in the downtown.

In addition to these revitalization programs and projects, the Authority still has approximately \$140,000 available for downtown capital improvements from bonds issued in 2004 (see Attachment 2 for additional discussion on capital improvement projects). Several projects have been completed or in the process of being completed such as various visual enhancements to Castro Street (replacement of caulking and Bomanite and stair treads), downtown signage and replacement of street lights. This proposed extension would allow additional time to identify and complete capital improvement projects to further enhance the downtown.

2. **No impact to the Mountain View Whisman School District, the Mountain View-Los Altos Union High School District and Other Taxing Entities**—Until the debt is repaid, the affected taxing agencies continue to receive the tax collected on the frozen base of \$21.2 million. For FY 2010-11, the Mountain View Whisman School District (MVWSD) is projected to receive a \$37,000 allocation of the frozen base, and the Mountain View-Los Altos Union High School District (MVLASHSD) is projected to receive \$30,000. Under this option, if the Plan is extended for two years it is anticipated that upon the repayment of the Authority's debt the taxing agencies would begin receiving their full share of the tax increment in FY 2016-17 as determined by the County (projected at approximately \$825,000 for the MVWSD and \$670,000 for the MVLASHSD for FY 2016-17).
3. **Minimize the Impact to the General Fund**—The City will receive its share of the property tax, which is estimated at \$840,000 per year once the debt is repaid, projected to be FY 2016-17. There is approximately \$528,000 of operating expenses in the Authority that will need to be absorbed by the General Fund. Until the Authority's debt is retired, some administrative expenses, estimated to be \$127,000 for monitoring and reporting purposes, may continue to be charged to the Authority. If the Authority is not extended, the General Fund would be impacted by \$411,000 per year for up to five years; but under this option, continuing the Authority for two (2) additional years, until April 2013, means the General Fund would be required to absorb approximately \$411,000/year for three years after which time the City would begin to receive the City's portion of the property tax.

**NOTE: One-Year Extension**—This is an option the City Council could consider. However, a one-year extension would have no impact in terms of the school districts and the other taxing entities receiving their full share of the property taxes. They would still not receive the full share of the property taxes until FY 2016-17. Under this option, the City would receive less housing set-aside funds for two years because the Authority would only receive one additional year of housing set-aside funds.

### Governor's Budget Proposal

In the recently released State Budget, Governor Brown proposed the elimination of redevelopment agencies throughout the State beginning July 1, 2011. However, it is unclear how the State proposes to implement this strategy. Staff is monitoring the proposal to better understand how it might impact this proposed extension.

### Downtown Committee

On Tuesday, January 11, 2011, the Downtown Committee met to discuss the proposed extension of the Revitalization Plan. The Committee discussed this item at length and concluded that over the years the entire City has benefitted from the efforts of the Downtown Revitalization Authority, making Castro Street a focal point in the community and the region. Several Committee members commented that it is important the City continue to make downtown a priority and that the extension is important to facilitate a transition for success once the Authority sunsets. The Committee unanimously recommended that the Council consider a two-year extension of the Revitalization Authority Plan.

### SUMMARY AND CONCLUSION

Based on the analysis of the alternatives, City staff concluded the alternative that offers the City/Authority the most flexibility and holds the school districts and other taxing entities harmless is to adopt an ordinance to extend the Authority for two additional years with the understanding that any additional tax increment (TI) accumulated during this two-year extension period would be reserved to pay off the Authority debt when the Authority operations expire in 2013. If the City Council directs staff to proceed with this two-year extension option, it is projected the Authority's debt will be paid off and the school districts and other taxing entities would receive their full share of property tax by FY 2016-17. This option is beneficial to the community, (while

keeping the school districts and other taxing entities whole) because it will provide time to allow a transition period for the downtown and that these taxing entities receive their share of property taxes at the same time as if there was no extension of the Plan.

Prepared by:


Approved by:



Ellis M. Berns  
Assistant Community Development Director/  
Economic Development Manager



Randal Tsuda  
Community Development Director



Kevin C. Duggan  
City Manager

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- Attachments:
1. Revitalization Authority Plan Area—Map
  2. March 2, 2010 Study Session Report and Minutes
  3. April 13, 2010 City Council Report and Minutes
  4. October 26, 2010 City Council Report—449 Franklin Street