Centre City Development Corporation

REPORT NO. CCDC-11-25

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| DATE ISSUED: | May 10, 2011 |
| ATTENTION: | Honorable Chair and Members of the Redevelopment Agency<br>Docket of May 16, 2011 |
| ORIGINATING DEPT.: | Centre City Development Corporation |
| SUBJECT: | Centre City Tax Increment Cap Elimination – Fiscal Impacts to the City General Fund – Areawide |
| COUNCIL DISTRICT: | 2 |
| REFERENCE: | None |
| STAFF CONTACT: | Jeff Graham, Vice President, Redevelopment, 619-533-7181 |

REQUESTED ACTION: To receive a report on the estimated impacts on the City of San Diego's ("City") General Fund as a result of the Centre City Redevelopment Project tax increment "cap" elimination and responses to related questions posed by the Redevelopment Agency of the City of San Diego ("Agency") Board members.

STAFF RECOMMENDATION: To receive a report on the estimated impacts on the City's General Fund as a result of the Centre City Redevelopment Project tax increment "cap" elimination and responses to related questions posed by the Agency Board members.

SUMMARY: At the June 22, 2010 Agency meeting, authorization was provided to the Centre City Development Corporation ("Corporation") to commence the studies and analysis necessary to process a Redevelopment Plan Amendment with the objective of increasing the tax increment cap for the Centre City Redevelopment Project. The Agency Board members also directed staff to perform an analysis of the potential financial impacts to the City's General Fund as a result of potentially increasing the tax increment cap. Corporation staff solicited a proposal from its on-call financial/economic consultant, Keyser Marston Associates, Inc. (KMA), to perform the requested impact study. Corporation staff included staff from the Office of the City's Independent Budget Analyst (IBA) and the City's Chief Financial Officer in discussions with KMA to establish their scope of services and methodology for the impact study. KMA has recently completed the impact study and its results are the primary subject of this report.

In addition to assessing the impacts to the City's General Fund, the Agency also directed Corporation staff to conduct research, seek legal guidance, and analyze other issues related to Centre City future tax increment and the increasing/elimination of the cap, the responses to which are also included in this report.

The KMA study concludes that downtown provides significantly more revenue to the City than it costs in services, both before and after the tax increment cap elimination. The elimination of the cap increases the overall financial benefits to the City than under the previous cap scenario.

FISCAL CONSIDERATIONS: Various fiscal considerations discussed throughout the report.

ECONOMIC IMPACTS: To date, the Centre City Redevelopment Project has created 62,000 construction jobs and 23,000 permanent long-term jobs through redevelopment activities. An additional 45,000 construction jobs and 27,000 permanent long-term jobs are estimated to be created as a result of the cap elimination based on an employment model developed for the Corporation by SANDAG.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On March 30, 2011, the Corporation Board heard this item as an informational item.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: On March 23, 2011, this item was presented to the Centre City Advisory Committee (CCAC) as an informational item.

REDEVELOPMENT AD HOC COMMITTEE: On April 25, 2011, a presentation was provided to the Agency Ad Hoc Committee as an informational item. Comments from the Committee members are summarized as follows:

- In reference to Question #2 in the Discussion section of this report: Councilmember Emerald expressed interest in requesting the San Diego City Council ("Council") to take action to reverse the financial obligations of the Grantville Redevelopment Project to fund downtown C Street transit improvements by terminating the Transit Line Cooperation Agreement.
- In reference to Question # 14 in the Discussion section of this report: Councilmember Alvarez expressed interest in requesting staff to evaluate the merits, costs and process of merging two or more redevelopment project areas. Staff requested direction on which project areas may be of interest for a merger to narrow the focus of future possible research.
- In reference to Question #15 in the Discussion section of this report: Councilmember Emerald requested information from Agency General Counsel as to the steps and process necessary to evaluate the legal possibility of the Agency to reimburse the City for law enforcement officers operating within the Centre City Redevelopment Project.

## BACKGROUND

On June 22, 2010, the Agency authorized the Corporation to commence the studies and analysis necessary as a first step in processing a Redevelopment Plan Amendment for the Centre City Redevelopment Project with the objective of increasing the tax increment limit, or "cap," established in 1992 when the Project Area was expanded to include the Little Italy, Core, Cortez and East Village districts. At that time, the cumulative tax increment cap was set at $2.894

billion, which was expected to be a reasonable forecast of total property tax generated within the expanded project area through the end of the project area's scheduled expiration in year 2043, while fulfilling a majority of the goals and objectives of the 1992 Downtown Community Plan.

In 2006 following more than two years of public engagement and intense planning efforts, the Council adopted the 2006 Downtown Community Plan ("Community Plan"), which significantly changed the future vision for downtown as not only a major regional employment center with an expected workforce of 165,000 by year 2030 but also a collection of neighborhoods to be occupied by up to 90,000 residents and a vibrant visitor destination supported by the expanded Convention Center, PETCO Park, Gaslamp Quarter Entertainment District and thousands of hotel rooms. To accommodate this new vision for downtown, the Community Plan and accompanying Downtown Planned District Ordinance (PDO) significantly increased the permitted development density on most sites within the planning area. This new vision and increased density required the need for more public infrastructure to support the tremendous anticipated growth including fire stations, parks, traffic signals, environmental remediation, historic rehabilitation, libraries, transit, mobility, arts and cultural support and other needs of a rapidly growing regional urban center.

Between 1992 and 2006, downtown private development and growth had already surpassed expectations and property tax revenues were greater than the projections used to establish the tax increment cap in 1992. In 2008, Corporation staff estimated that the $2.894 billion cap would now be reached in approximately the year 2024 rather than the scheduled year of expiration in 2043, ending downtown redevelopment 20 years sooner than expected and providing far fewer funds than necessary to implement the public infrastructure, housing and economic goals of the new Community Plan. Without the parks, transit, safety and other improvements, it was unlikely downtown would be able to provide the livable environment sought by future residents, especially families, and that other, more established, neighborhoods in the City would need to absorb the future residential and employment growth, creating negative impacts on those neighborhoods' quality of life. No other means of fully funding the improvements necessary to implement the Community Plan were identified.

Therefore, in 2010 Corporation staff began researching the process required to implement a Redevelopment Plan Amendment with the purpose of increasing the tax increment cap based on updated greater tax increment projections and estimated improvement costs necessary to implement the Community Plan. The findings of that research and estimated costs of the Plan Amendment process were presented to the Agency on June 10, 2010 and authorization to proceed was unanimously approved.

During the course of KMA conducting the required blight study, State Legislation was enacted that eliminated the Centre City Redevelopment Project tax increment cap and the studies underway were suspended. The legislation did not extend the expiration date of the project area. Two separate cases of litigation have been filed and are pending challenging the State Legislation, one filed against the Agency and the Corporation, the second filed against the State. If either case is successful, the cap elimination could be reversed and all future additional tax increment projected to be received by the Agency would be directed to tax sharing entities. However, the Agency could determine to undertake the blight study again.

DISCUSSION

At the June 22, 2010 Agency meeting, in addition to providing authorization to the Corporation to commence the studies and analysis necessary to process a Redevelopment Plan Amendment, the Agency Board members also directed staff to perform an analysis of the potential financial impacts to the City's General Fund as a result of potentially increasing the tax increment cap. Corporation staff solicited a proposal from its on-call financial/economic consultant, KMA, to perform the requested impact study. Corporation staff included staff from the Office of the City's IBA and the City's Chief Financial Officer in discussions with KMA to establish their scope of services and methodology for the impact study. KMA has recently completed the impact study and its results are the primary subject of this report.

In addition to assessing the impacts to the City's General Fund, the Agency also directed Corporation staff to conduct research, seek legal guidance, and analyze other issues related to Centre City future tax increment and the increasing/elimination of the cap which are summarized as follows:

1. Determine appropriate actions necessary to assume the City's future obligations to repayment of the PETCO Park bonded indebtedness.
2. Develop a legal and financial strategy for reversing the financial obligations of the Grantville Redevelopment Project to fund downtown C Street transit improvements and identify alternative financing for such improvements.
3. Identify potential projects for a transit improvement program as one use of the future tax increment revenues.
4. Provide a program to reduce homelessness through the production of permanent supportive housing and other methods.
5. Assess the feasibility of future investments of Centre City tax increment revenues in Balboa Park improvements, specifically the conversion of the $20^{th}$ and B streets site from a City maintenance facility to park land. Identify those capital improvements, if any, outside the Centre City Redevelopment Project that may still be legally funded as a result of State Senate Bill 93.
6. Provide alternative programs for the use of the additional tax increment revenues including and excluding a potential Chargers stadium.
7. Quantify the number of jobs created to date and a forecast of those to be created within the Centre City Redevelopment Project as a result of the cap increase.
8. Analyze the financial and housing production impacts of increasing the future affordable housing set aside from 20% to 25% or 30%.
9. Identify ways in which increasing or eliminating the tax increment cap may benefit other redevelopment project areas (i.e., affordable housing, development opportunities, infrastructure, improvements to communities along the transit corridor, etc.).
10. Determine the legal and financial possibilities of the Centre City Redevelopment Project assuming the City's future bond debt service on the Convention Center Phase 2.

11. Ask members of the CCAC to attend Community Planning Group meetings located in Council District 1 to educate them on the details of the proposed cap increase.
12. Forecast potential new Transient Occupancy Tax (TOT) revenues to be generated as a result of the cap increase and its ability to supplement the General Fund.
13. Assess potential impacts on future private development in Council District 1 as a result of a possible cap increase.
14. Evaluate whether merging separate redevelopment project areas would provide an overall benefit (i.e., Transit-Oriented Development, workforce housing, community plan updates, etc.).
15. Determine whether Centre City tax increment can legally be used to pay for public safety personnel within the project area.

Responses to each of these issues follow the summary of the KMA analysis of impacts to the General Fund.

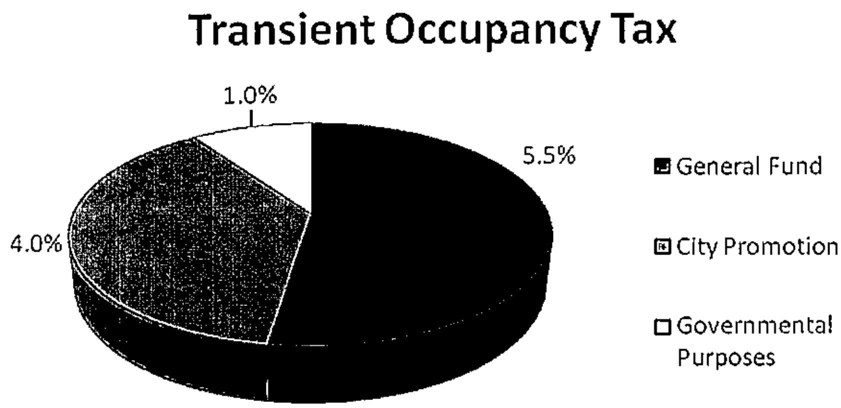
*Summary of KMA Analysis*

Working in conjunction with staff from the Corporation, the Office of the IBA and various City departments, KMA developed a comprehensive approach and methodology for forecasting a comparative estimate of the future positive and negative impacts to the City's General Fund assuming (a) no increase to the tax increment cap and, (b) an elimination of the tax increment cap.

The KMA analysis includes all revenues generated from downtown that directly benefit the City's General Fund including property tax, property transfer tax, TOT, sales and use tax, and other fees and taxes. The forecasts include all expenses related to future downtown development that adversely impact the City's General Fund including street maintenance, police, fire, library services, park maintenance, and other expenses of the City's executive, legislative and administrative services.

One of the major revenue sources generated from downtown that benefit the City's General Fund is TOT. The City's 10.5% TOT is, pursuant to City Municipal Code Sections 35.0128 through 35.0133, applied as follows: 5.5% to the General Fund, 4.0% to the TOT Fund for the purpose of promoting the City, and 1.0% as directed by the City Council for general governmental purposes. For the past three fiscal years, as permitted by the Municipal Code, the City Council has identified City visitor promotion-related expenses within the General Fund which have been paid by the 4% portion of the tax. As a result, the General Fund has recently benefited from more than only the 5.5% portion of the tax. However, to be extremely conservative, KMA has applied only the 5.5% portion of the TOT to the General Fund analysis and the remainder has been reflected as a general financial benefit to the City as a whole.

Examples of the types of services that have been funded by the 4% City Promotion portion of the tax include arts, culture and community festivals; debt service and operating support related to PETCO Park, Mission Bay improvements, the Convention Center and Qualcomm Stadium; economic development programs; and other City-wide special events.




While the comprehensive KMA analysis is included as Attachment A to this report, the following are the study's key findings:

During Fiscal Year (FY) 2010, KMA estimates that the Centre City Redevelopment Project provided a net positive impact to the General Fund in the amount of $3 million, after accounting for all revenues and costs. The three greatest revenue sources directly impacting the General Fund from downtown were TOT ($28.97 million), Direct and Indirect Sales Tax ($10.53 million), and Property Tax in-lieu of VLF ($7.69 million). As described above, while the total TOT generated from downtown in FY 2010 was $55.27 million, KMA applied only the 5.5% portion, or $28.97 million, as a direct positive impact to the General Fund.

Additionally, through cooperation agreements, the Centre City Redevelopment Project alleviated the General Fund of $11.3 million in PETCO Park bond debt service and approximately $2 million for City administrative services yielding a total positive one-year impact of $16.4 million.

The Centre City Redevelopment Project also provided in FY 2010 other benefits to the City which are not statutorily directed to the General Fund but provide financing to projects and services located throughout the City. These additional benefits include a repayment of $1.5 million in Community Development Block Grant (CDBG) funds which can be used to fund eligible projects throughout the City and $26.3 million in TOT that was directed to the promotion of City Tourism and Council purposes (5.0 percent of the total 10.5 percent TOT), much of which augments the General Fund.

| | **FY 2010** |
|---|---|
| Recurring Annual General Fund Revenues | $57,305,000 |
| Reimbursement of Petco Park debt service | $11,300,000 |
| Reimbursement of City Services | $2,000,000 |
| Recurring Annual General Fund Expenses | ($54,226,000) |
| Net Annual Fiscal Impact | $16,379,000 |

| | FY 2010 |
|---|---|
| Other Benefits to the City<br>CDBG Debt Service<br>TOT City Tourism and Council Purposes | <br>$1,500,000<br>$26,300,000 |
| Total Positive Impact to City | $44,179,000 |

When forecasting future impacts to the General Fund, the KMA study compared the present value of expected revenues and costs for FY 2011 through FY 2053. The following table summarizes the results:

| ***Present Value - Years 2011-2053*** | **No Cap Increase** | **Cap Elimination** | **Variance** |
|---|---|---|---|
| Net Estimated Benefit to the General Fund (from KMA analysis) | $156,434,000 | $111,814,000 | ($44,620,000) |
| Add: | | | |
| • Future PETCO Park debt service reimbursement | $31,508,000 | $124,687,000 | $93,179,000 |
| • Future City services reimbursement | $20,836,000 | $32,646,000 | $11,810,000 |
| • Future Convention Center Phase 2 debt service reimbursement | $0 | $228,600,000 | $228,600,000 |
| **Total Estimated Benefits to the General Fund** | **$208,778,000** | **$497,747,000** | **$288,969,000** |
| Other City Benefits (non-General Fund): | | | |
| • Additional TOT to City Tourism and Council Purposes | $575,792,000 | $624,910,000 | $49,118,000 |
| • Future CDBG repayments | $66,378,000 | $66,378,000 | $0 |
| **Total Estimated Benefits to the City** | **$850,948,000** | **$1,189,035,000** | **$338,087,000** |

The KMA analysis estimates a net reduction in benefit to the City's General Fund of approximately $44.6 million over the 44-year period by eliminating the cap when considering only revenues and expenses, primarily due to a reduction in property tax revenues resulting from an extended duration of redevelopment activities. After considering PETCO Park and Convention Center Phase 2 debt service reimbursements which have been approved by the Agency and City Council, which would not have been financially feasible without increasing the cap, the General Fund directly benefits by a total of $289 million.

And finally, when considering additional TOT for City Tourism and Council Purposes (which indirectly benefits the General Fund), the City's estimated benefits from the cap increase total more than $338 million.

The assumptions used by KMA in their analysis are conservative, and err on the higher side of possible General Fund expenses and the lower side of potential revenues. The future private development in the study is based on Corporation staff projections, knowledge of entitled near-term projects and un-entitled potential future development as build-out is defined in the Community Plan. The KMA report includes a comprehensive description of all assumptions used in the analysis.

*Responses to Other Related Issues Posed By City Council:*

1. *Determine appropriate actions necessary to assume the City's future obligations to repayment of the Petco Park bonded indebtedness.*

   On February 8, 2011, the City and Agency approved a Third Amendment to the Ballpark Cooperation Agreement, which obligates the Centre City Redevelopment Project to reimburse 100 percent of the City's future debt service on the PETCO Park bonds for FY 2012 through 2032 for a total amount of $237,671,162.

2. *Develop a legal and financial strategy for reversing the financial obligations of the Grantville Redevelopment Project to fund downtown C Street transit improvements and identify alternative financing for such improvements.*

   In August 2008, the Agency entered into various Cooperation Agreements to facilitate the effectiveness of the Grantville Redevelopment Project.

   Four agreements were entered into as follows:

   i) A Joint Projects Cooperation Agreement between the Agency and the County requiring that $7.8 million of the Grantville tax increment will fund a portion of the cost of construction of joint project improvements of benefit to the Grantville Project Area over 39 years.

   ii) A North Embarcadero Cooperation Agreement requiring that the Agency pay the County tax increment from the Centre City Redevelopment Project $31.4 million for the cost of North Embarcadero public improvements and/or facilities over 39 years.

   iii) A Transit Line Cooperation Agreement requiring that the Agency pay the City tax increment from the Grantville Redevelopment Project in the amount of $31.4 million to fund a portion of transit line improvements on C Street and related public improvements located in downtown San Diego.

iv) A Housing Credit Cooperation Agreement requiring that the Agency, City and County agree that up to $9.8 million of the affordable housing fund shall be used to satisfy the County's share of regional housing needs allocation established by the San Diego Association of Governments (SANDAG).

During the Agency discussion of the cap increase for the Centre City Redevelopment Project, it was requested that item three above, Transit Line Cooperation Agreement, be terminated. The agreement is between the City and the Agency relating to the Grantville Redevelopment Project Area. Pursuant to section 5.4 of the agreement, all amendments or modifications shall be executed by the City and Agency. Approval by the City Council and the Agency would be appropriate to terminate the agreement. The fiscal impact to the downtown project area would be a decrease in funding for C Street improvements in the amount of $31.4 million and an increase in funding for Grantville projects by an equal amount. A confidential legal opinion dated June 11, 2010 was issued by Agency Special Counsel regarding the analysis of rescission of the Grantville Cooperation Agreements.

3. *Identify potential projects for a transit improvement program as one use of the future tax increment revenues.*

Numerous transit improvement projects are identified in the Community Plan and are included in the long-term CIP cost projections. Examples of such projects include the preparation of an Interstate 5 Downtown Transportation Improvement Plan, the implementation of a Downtown Shuttle Program, site acquisition, remediation and relocation of the MTS bus maintenance facility located in East Village, cooperation with SANDAG to facilitate the proposed Bus Rapid Transit (BRT) stations and bus layover sites, and implementation of the C Street Master Plan including light rail improvements. Corporation staff will continue to work with SANDAG to identify additional future transit improvements for possible funding from tax increment and Development Impact Fees.

4. *Provide a program to reduce homelessness through the production of permanent supportive housing and other methods.*

To date, the Centre City Redevelopment Project has funded 293 permanent supportive housing units which are completed and operating and 72 additional units which are currently under construction. An additional 119 units are currently approved for funding or are in the due diligence/funding approval process. In addition to the permanent supportive units, each year the Corporation provides funding for 32 rental vouchers for homeless seniors under a program managed by Senior Community Centers and this year provided $100,000 in funding for the County of San Diego's shelter for homeless families program.

The Corporation has made the implementation of homeless solutions one of its top priorities. In July 2010, the Corporation entered into an agreement with LeSar Development Consultants (LDC), a firm with a successful track record and unique experience in homeless solutions. To date, LDC has organized and completed Registry Week, an intensive three-day survey of the downtown homeless population resulting in a detailed understanding of the population's needs and eligible funding sources for housing and support services. LDC has also secured housing vouchers for 125 of the most vulnerable individuals identified during Registry Week. Monthly homeless Leadership Committee meetings are held and attended by Corporation staff and partner agencies, service providers, elected officials and their representatives, and other stakeholders.

LDC and Corporation staff are now finalizing a Five-Year Work Plan to deliver a sufficient number of housing units, beds and services to virtually end downtown homelessness within the next five years. The plan will set quarterly and annual unit production goals and identify financial resources from tax increment and partner agencies to produce the units/beds and ongoing services and rental subsidies. The plan is expected to be finalized and presented to the Corporation Board in the near future and made publicly available on the Corporation's website by the end of May 2011.

5. *Assess the feasibility of future investments of Centre City tax increment revenues in Balboa Park improvements, specifically the conversion of the 20th and B streets site from a City maintenance facility to public park land. Identify those capital improvements, if any, outside the Centre City Redevelopment Project that may still be legally funded as a result of State Senate Bill 93.*

   The subject site is located completely outside the boundaries of the Centre City Redevelopment Project separated by Interstate 5. The enactment of Senate Bill 93 placed very strict conditions and finding requirements on the use of tax increment outside of a redevelopment project area. To specifically address the legal issues surrounding this question, the law firm of Kane, Ballmer and Berkman, Agency Special Counsel, prepared a written opinion dated September 23, 2010 on the matter (Attachment B).

6. *Provide alternative programs for the use of the additional tax increment revenues including and excluding a potential Chargers stadium.*

   Corporation staff has not received a proposal for the development of a Chargers Stadium within the Centre City Redevelopment Project; therefore, insufficient information exists to prepare a response to this question.

7. *Quantify the number of jobs created to date and a forecast of those to be created within the Centre City Redevelopment Project as a result of the cap increase.*

   To date, the Centre City Redevelopment Project has created 62,000 construction jobs and 23,000 permanent long-term jobs through redevelopment activities. An additional 45,000 construction jobs and 27,000 permanent long-term jobs are estimated to be created as a result of the cap elimination based on an employment model developed for the Corporation by SANDAG.

8. *Analyze the financial and housing production impacts of increasing the future affordable housing set aside from 20% to 25% or 30%.*

California Redevelopment Law (CRL) requires that a minimum of 20% of gross property tax increment generated within a project area be set aside for the production and preservation of Low and Moderate Income Housing. Historically, all of the project areas managed by the Agency have contributed the 20% minimum. A few project areas in other California cities dedicate a greater amount to their Low/Mod set-aside fund. However, most of those project areas are in the latter years of their life have completed a majority of the desired public improvements in the project area, eliminated blight, accomplished quality of life and economic development objectives, and focused the remaining years in Low/Mod housing production.

CRL also requires that a minimum of 15 percent of all housing units produced within a redevelopment project area during that project area's life be restricted as qualified affordable units. The Centre City Redevelopment Project has consistently exceeded this requirement and today more than 19 percent of all units produced are affordable. This success is expected to grow over the next few years as many more affordable units funded from the Centre City Redevelopment Project are completed while market-rate construction has curtailed.

Increasing the Low/Mod set-aside to 25% or 30% within the Centre City Redevelopment Project now would significantly reduce the future funding available to implement many of the improvements outlined in the Community Plan including much needed parks, mobility, fire stations, safety, transit and soils remediation. Also, the Agency's policy has always emphasized the strategy of leveraging local tax increment funds with federal, state and other local funds to produce the maximum number of affordable housing units possible. Since the amount of non-local funds is limited each year, are highly competitive, and vary from year to year, an increase in the Low/Mod set aside would most certainly result in the Agency funding a larger portion of future units' land and development costs, resulting in fewer than the optimum number of units being produced.

Assuming all other factors remain constant, staff estimates that an additional $340 million would be made available for affordable housing through FY 2043 if the housing set–aside is increased to 25%. If the set-aside is increased to 30%, staff estimates an additional $680 million in Low/Mod funds would be available.

| Low/Mod Set-Aside Percentage | **20%** | **25%** | **30%** |
|---|---:|---:|---:|
| | | | |
| Estimated total set-aside (FY'12-'43) | $1,360,000,000 | $1,700,000,000 | $2,400,000,000 |

| | | | |
|---|---|---|---|
| Increase from 20% minimum | | $340,000,000 | $680,000,000 |

An increase to the housing set-aside to 25% would create a cumulative cash flow deficit of approximately $18.7 million in FY 2014 and a cumulative deficit of $33.9 million by FY 2016 of Centre City unrestricted funds.

Staff projects that an increase in the affordable housing set-aside to 30% would result in a cumulative unrestricted funds deficit of approximately $3.8 million in FY 2013 and a cumulative deficit of $69.3 million by FY 2016.

An alternative to increasing the set-aside percentage to 25% or 30% of all current tax increment would be to establish FY 2011 as a new base year (for set-aside calculation purposes) and begin to contribute an additional 5% or 10% of every future dollar of tax increment collected over the FY 2011 base year amount.

An example of such a scenario is as follows: if an additional 5% over the FY 2011 base year were set-aside, staff estimates that an additional $150 million in Low/Mod set-aside would be made available through FY 2043 and would not produce a cash flow deficit in unrestricted funds.

If the set-aside amount were increased to 10 percent over the FY 2011 base year, staff estimates that an additional $300 million would be made available for affordable housing through FY 2043 and would not produce a deficit in unrestricted funds.

**It is staff's recommendation to maintain the Low/Mod set-aside amount at 20% until such time that progress has been made in the installation of new parks and other critically needed infrastructure to eliminate blight and ignite private investment for growth in tax increment.**

9. *Identify ways in which increasing or eliminating the tax increment cap may benefit other redevelopment project areas (i.e., affordable housing, development opportunities, infrastructure, improvements to communities along the transit corridor, etc.).*

   Other City redevelopment project areas, as well as the entire City, benefit from the elimination of the tax increment cap by generating the positive impacts to the City General Fund and other revenues as described in the Summary of the KMA Analysis section of this report. Those funds will be available for capital improvements and services anywhere in the City. As discussed in the responses to questions #5 and #6 above, Senate Bill 93 has significantly restricted the use of 80 percent redevelopment tax increment funds outside of the Centre City Redevelopment Project boundaries. However, the potential exists to fund improvements in the neighborhoods on parcels immediately adjacent to the Centre City Redevelopment Project boundaries.

   Low/Moderate Income Housing Funds may be used to finance projects located outside of the Centre City Redevelopment Project and have been used in the past to produce over 900 affordable units outside of downtown. The elimination of the tax increment cap is estimated to generate $1.36 billion between FY 2012 through 2043 for the production and preservation of affordable housing located both inside and outside of downtown. Well-designed affordable housing developments, particularly those that are mixed-income and mixed-use, can become catalysts for new private development within a blighted or under-served neighborhood. Findings of benefit to the Centre City Redevelopment Project must be substantiated and adopted by the Agency and Council. Such findings frequently require the project to be located near the project area or along a transit corridor providing a direct connection to downtown.

10. *Determine the legal and financial possibilities of the Centre City Redevelopment Project assuming the City's future bond debt service on the Convention Center Phase 2.*

    Two legal opinions have been prepared related to the potential for Centre City Redevelopment Project tax increment reimbursing the City for debt service related to the Convention Center Phase 2. A confidential opinion was issued by the City Attorney on June 10, 2010. A second legal opinion was issued by the City Attorney on November 24, 2010 and was made publicly available (Attachment C). The opinion issued by the City Attorney concluded that, with proper findings being substantiated and adopted, the Agency's reimbursement is legally possible.

    The financial impacts on the Centre City Redevelopment Project, however, are expected to be significant, result in negative annual cash flow for FY 2013 through 2016 and beyond and provide no funds for redevelopment activities for at least the next several years. The projected financial impacts of the Centre City Redevelopment Project assuming the full Convention Center Phase 2 debt service are provided in Attachment D. In addition, the Agency must consider the impacts of the Convention Center Phase 2 debt service combined with the impacts of potentially increasing the Affordable Housing Set-Aside as discussed in item 8 above.

    On March 29, 2011, the Agency and Council approved a phased reimbursement agreement for the Convention Center debt service totaling $228.6 million that does not fully deplete the unrestricted funds of the Centre City Redevelopment Project.

11. *Ask members of the CCAC to attend Community Planning Group meetings located in Council District 1 to educate them on the details of the proposed cap increase.*

    Councilmember Lightner has subsequently indicated that this request is no longer required to be fulfilled by CCAC members but asked that they attend the Corporation's Community Benefit Assessment meeting when held in District 1.

12. *Forecast potential new TOT revenues to be generated as a result of the cap increase and its ability to supplement the General Fund.*

A forecast of future potential TOT is provided in the KMA analysis (Attachment A).

13. *Assess potential impacts on future private development in Council District 1 as a result of a possible cap increase.*

The future potential development opportunity sites located in Council District 1 are all in a different submarket of the San Diego region. The type, scale and target users of future development in downtown San Diego are very different than those in areas of District 1. The full build-out capacity of private development within the Centre City Redevelopment Project cannot accommodate the anticipated future regional demand for residential, retail or office uses and is not expected to cannibalize development opportunities from other districts of the City.

14. *Evaluate whether merging separate redevelopment project areas would provide an overall benefit (i.e., Transit-Oriented Development, workforce housing, community plan updates, etc.).*

An accurate response to this question requires a comprehensive evaluation of each of the project areas in order to determine any possible merits of mergers. In general, if other areas were merged with the Centre City Redevelopment Project, then tax increment generated from the existing Centre City Redevelopment Project could legally be invested in public infrastructure, planning studies related to Community Plan updates, affordable housing, and other public improvements to encourage private investment.

15. *Determine whether Centre City tax increment can legally be used to pay for public safety personnel within the project area.*

The Agency is legally permitted under CRL to expend funds for legitimate redevelopment purposes within a redevelopment project area, which generally include: (i) activities and programs that assist in the elimination or alleviation of existing blight; (ii) construction of public improvements; and (iii) preservation and production of affordable housing. The Agency's funding of public safety officers, without an adequate explanation of the factual basis for such funding, could be viewed as a violation of Health and Safety Code Section 33678(b)(1)(C), which prohibits the Agency's funding of employee or contractual services of the City. In those cities that have expended redevelopment funds on public safety officers (such as police officers in the City of Oakland), detailed studies have been conducted of the redevelopment project area to show how the public safety officers would specifically eliminate blight in the applicable project area.

PROJECT DESCRIPTION

On June 22, 2010, the Redevelopment Agency of the City of San Diego ("Agency") authorized the Centre City Development Corporation ("Corporation") to commence the studies and analysis necessary to process a Redevelopment Plan Amendment with the objective of increasing the tax increment cap for the Centre City Redevelopment Project. The Agency also directed staff to perform an analysis of the potential financial impacts to the City of San Diego's General Fund as a result of potentially increasing the tax increment cap. Keyser Marston Associates, Inc. (KMA), performed and completed the requested impact study. Corporation staff included staff from the Office of the City's Independent Budget Analyst and the City's Chief Financial Officer in discussions with KMA to establish their scope of services and methodology for the impact study.

Environmental Impact – This activity is not a "project" for purposes of the California Environmental Quality Act (CEQA) because it does not fit within the definition of a "project" set forth in Public Resources Code Section 21065 or State CEQA Guidelines Section 15378. Thus, this activity is not subject to CEQA pursuant to State CEQA Guidelines Section 15060(c)(3).

CONCLUSION

The KMA study concludes that downtown provides significantly more revenue to the City than it costs in services, both before and after eliminating the tax increment cap. When considering only direct revenues and expenses to the City's General Fund, the KMA analysis estimates a net reduction in benefit to the City of approximately $44.6 million over the 44-year period by eliminating the cap. However, after considering Petco Park and Convention Center debt service reimbursements that would not have been financially feasible without increasing the cap, the General Fund directly benefits by $289 million.

And finally, when considering additional TOT for City Tourism and Council Purposes (which indirectly partially benefits the General Fund), the City benefits from the cap increase by a total estimate of more than $338 million (all values are in FY 2010 present value).

Respectfully submitted,

Jeff Graham
Vice President, Redevelopment

Concurred by:

Frank J. Alessi
Executive Vice President & Chief Financial Officer

Attachments: A – Keyser Marston Analysis
B – Kane Ballmer Berkman Legal Opinion
C – City Attorney Legal Opinion
D – Five-Year Revenue & Expenditure