



## THE CITY OF SAN DIEGO

DATE ISSUED: February 17, 2010 REPORT NO: RA-10-11  
RTC-10-015

ATTENTION: Honorable President and Members of the City Council  
Honorable Chair and Members of the Redevelopment Agency  
Docket of: February 23, 2010

SUBJECT: Educational Revenue Augmentation Fund Payments, Proposed Fiscal Year 2010 San Diego Redevelopment Agency Budget Amendments, Agency Debt to the City and Community Development Block Grant Proposed Repayment Terms.

REFERENCES: Report to Budget and Finance Committee "Fiscal Year 2010 San Diego Redevelopment Agency Budget Impact –Education Revenue Augmentation Fund and Community Development Block Grant Payments" dated September 30, 2009

### REQUESTED ACTIONS:

Should the Redevelopment Agency:

- 1) Adopt a resolution to authorize the City's Chief Financial Officer, as delegated, to unencumber funds in the amount of \$11,457,209 previously reserved for payment to the Educational Revenue Augmentation Fund (ERAF) during Fiscal Year 2009 per AB 1389.
- 2) Adopt a resolution to: (a) amend the Agency's Program Budgets for the Redevelopment Projects administered by Centre City Development Corporation, Southeastern Economic Development Corporation, and the City's Redevelopment Division to facilitate the anticipated ERAF payment for Fiscal Year 2010 per AB X4-26; and (b) authorize the City's Chief Financial Officer, as delegated, to remit payment totaling approximately \$55,700,000 to the ERAF for Fiscal Year 2010, as required.
- 3) Adopt a resolution to amend the Agency's Program Budgets, as recommended, to reduce appropriations to levels that are supported by the respective Fiscal Year 2010 Assessed Valuations for certain Redevelopment Project Areas.
- 4) Direct staff to prepare a CDBG Loan Repayment Agreement for consideration by the Agency Board, pursuant to the terms and schedule for repayment as contained in this staff report.



### Redevelopment Agency

1200 Third Avenue, Suite 1400, MS 56D • San Diego, CA 92101-4110  
Tel (619) 236-6700 Fax (619) 533-3219

City Planning & Community Investment



- 5) Direct staff to prepare a Budget Amendment for consideration by the Agency Board to facilitate payment of deferred accounts payable liabilities to the City.

Should the City Council:

- 1) Direct staff to prepare a CDBG Loan Repayment Agreement for consideration by the City Council, pursuant to the terms and schedule for repayment as contained in this staff report.
- 2) Direct staff to prepare any required documents for consideration by the City Council to accept payment of deferred accounts payable liabilities by the Agency.

STAFF RECOMMENDATION:

It is recommended that the Redevelopment Agency:

- 1) Adopt a resolution to authorize the City's Chief Financial Officer, as delegated, to unencumber funds in the amount of \$11,457,209 previously reserved for payment to the Educational Revenue Augmentation Fund (ERAF) during Fiscal Year 2009 per AB 1389.
- 2) Adopt a resolution to: (a) amend the Agency's Program Budgets for the Redevelopment Projects administered by Centre City Development Corporation, Southeastern Economic Development Corporation, and the City's Redevelopment Division to facilitate the anticipated ERAF payment for Fiscal Year 2010 per AB X4-26; and (b) authorize the City's Chief Financial Officer, as delegated, to remit payment totaling approximately \$55,700,000 to the ERAF for Fiscal Year 2010, as required.
- 3) Adopt a resolution to amend the Agency's Program Budgets, as recommended, to reduce appropriations to levels that are supported by the respective Fiscal Year 2010 Assessed Valuations for certain Redevelopment Project Areas.
- 4) Direct staff to prepare a CDBG Loan Repayment Agreement for consideration by the Agency Board, pursuant to the terms and schedule for repayment as contained in this staff report.
- 5) Direct staff to prepare a Budget Amendment for consideration by the Agency Board to facilitate payment of deferred accounts payable liabilities to the City.

It is recommended that the City Council:

- 1) Direct staff to prepare a CDBG Loan Repayment Agreement for consideration by the City Council, pursuant to the terms and schedule for repayment as contained in this staff report.



- 2) Direct staff to prepare any required documents for consideration by the City Council to accept payment of deferred accounts payable liabilities by the Agency.

#### SUMMARY:

The State adopted its Fiscal Year 2009-2010 Budget and a companion item AB X4-26 to shift \$2.05 billion in redevelopment tax increment to the ERAF over Fiscal Year 2010 and Fiscal Year 2011. AB X4-26 provides for a statewide payment of \$1.7 billion in Fiscal Year 2010 and \$350 million in Fiscal Year 2011. The Redevelopment Agency of the City of San Diego's ("Agency") estimated proportional share of this statewide take is approximately \$55.7 million in Fiscal Year 2010 and approximately \$11.5 in Fiscal Year 2011.

The Fiscal Year 2009 ERAF take pursuant to AB 1389 was determined unconstitutional by the California courts. Thus, the Agency seeks to unencumber \$11,457,209 previously reserved for payment to ERAF during Fiscal Year 2009. These funds are proposed to be re-allocated toward the RDA's total payment of the Fiscal Year 2010 ERAF take pursuant to AB X4-26.

The City of San Diego has provided capital assistance to the Agency to advance project area projects and activities. These capital or equity advances from the City were recorded as loans from the City to the Agency through the adoption of resolutions by the City. The debt was to be subordinate to all other debt of the Agency and repaid on a subordinate basis, as redevelopment was approaching completion. CDBG funds are one of the many sources of City capital investment in the redevelopment project areas. These CDBG funds are carried as Agency debt to the City. The Office of the Inspector General ("OIG") of the U.S. Department of Housing and Urban Development ("HUD") conducted an audit of the City's CDBG program. The OIG audit report recommends, among other things, that HUD require the City initiate the Agency's repayment of CDBG funds to the City at this time. City and Agency representatives have been in negotiations with HUD as to an acceptable payment schedule.

Amendments to the Fiscal Year 2010 Agency Budget are necessary to accommodate the Fiscal Year 2010 ERAF.

Further, several of the Agency's Project Areas are experiencing declines in Assessed Valuation. Thus, staff recommends a Fiscal Year 2010 Budget Amendment for certain Project Areas to reduce program expenditures to levels supported by the reduced assessed valuations.

#### BACKGROUND AND DISCUSSION

##### **EDUCATIONAL REVENUE AUGMENTATION FUND ("ERAF")**

In September 2008, the State adopted AB 1389 as a budget trailer bill that, among other things, authorized a one-time payment of \$350 million of redevelopment funds into the ERAF. The Agency's estimated proportional share of the Fiscal Year 2009 ERAF shift was to be \$11.5 million. Redevelopment agencies were to make their ERAF payments to the respective county on or before May 10, 2009.

In December 2008, the California Redevelopment Association (“CRA”) filed a lawsuit in Sacramento Superior Court, alleging the unconstitutionality of AB 1389 and the taking of redevelopment tax increment.

In April 2009, the Superior Court ruled in favor of CRA, invalidating AB 1389 and pronounced that the shift of redevelopment funds to the ERAF, “*violates the intent of section 16 [of the State Constitution], to allocate the tax increment to the financing of redevelopment projects.*” The State immediately appealed the Superior Court decision and the Court granted CRA’s request to postpone the May 10, 2009 payment deadline pending the outcome of the State’s appeal. Accordingly, the Agency did not make the Fiscal Year 2009 ERAF payment to the County.

In June 2009, the State Legislative Budget Conference Committee voted to include in a budget trailer bill three years of payment of \$350 million of redevelopment funds into the ERAF. The statewide payments over the three years equaled \$1.05 billion.

In July 2009, the State adopted its Fiscal Year 2009-2010 Budget and companion item ABX4-26 to shift \$2.05 billion in redevelopment tax increment to the ERAF over Fiscal Year 2010 and Fiscal Year 2011. The statewide payment requirement is \$1.7 billion in Fiscal Year 2010 and \$350 million in Fiscal Year 2011.

ABX4-26 includes a formula based upon Fiscal Year 2007 tax increment receipts to determine each redevelopment agency’s proportional share of the ERAF. The basis for one-half of each agency’s contribution is on the agency’s percentage share of the total state wide net tax increment revenues (i.e., tax increment revenue after pass-through payments to other taxing agencies). The basis for the other half of each agency’s contribution is on the agency’s percentage share of the total state wide gross tax increment revenue.

Accordingly, the Agency’s estimated proportional share of this shift is approximately \$55.7 million in Fiscal Year 2010 and \$11.5 million in Fiscal Year 2011. Fiscal Year 2010 payments are due to the counties on or before May 10, 2010. The legislation includes severe restrictions on agencies that do not make the full payment on or before the May 10, 2010 deadline.

In September 2009 the State dropped the appeal of the 2008 lawsuit challenging AB 1389, making the April 2009 Superior Court decision final and binding, thereby relieving agencies from the Fiscal Year 2009 ERAF payment requirement.

In October 2009, CRA and two of its member agencies (Union City Redevelopment Agency and Fountain Valley Redevelopment Agency) filed a lawsuit challenging the constitutionality of State raids of redevelopment funds. Article XVI, Section 16 of the California Constitution states that redevelopment funds are specifically limited to financing redevelopment project activities. The lawsuit contends that taking redevelopment funds to balance the state’s budget does not qualify as a constitutionally permitted use of redevelopment funds and is a clear violation of the California Constitution.



The plaintiff's are asking the court for a ruling before May 2010, the date redevelopment agencies must make Fiscal Year 2010 payments to their respective counties. The State of California Department of Finance will be the principal defendant in the lawsuit. For technical reasons, county auditors are also defendants, since auditors are the officials charged with the transfer of payments from the redevelopment agencies into the county ERAF. While there is no way to predict how long a court proceeding will take, given the magnitude of the take and the impact it will have on redevelopment agencies, CRA is hopeful the court will rule sometime in early 2010.

ABX4-26 provided that an agency unable to make full payments may enter into an agreement with the local legislative body to fund the difference between the total ERAF payment and the amount paid by the agency. In addition, for Fiscal Year 2010 only, a redevelopment agency may suspend all or part of the required 20% allocation to its low- and moderate-income housing fund ("Housing Fund") in order to make the required payments. If needed, the agency may also borrow accumulated funds from its Housing Fund for the Fiscal Year 2010 ERAF payment. Redevelopment agencies cannot utilize Housing Fund loans for Fiscal Year 2011 payments. Repayment of such loans from the Housing Fund must occur on or before June 30, 2015. If an agency fails to repay the Housing Fund by June 30, 2015, the statutory 20% allocation of tax increment to an agency's Housing Fund increases to 25% for as long as the project area continues to receive tax increment.

Housing Funds are not a source of funding ERAF payments for any of the Redevelopment Agency's seventeen (17) project areas.

Many agencies will have no alternative but to borrow at least a portion of the Fiscal Year 2010 ERAF payment from its Housing Fund. This may result in the delay or elimination of many affordable housing projects where redevelopment funding is a key component of the financing, leveraging other State and Federal financing sources.

**ERAF Payments:**

The three-redevelopment operating entities evaluated the revenues, encumbrances, and proposed expenditures for Fiscal Year 2010 and general projections for Fiscal Year 2011 for project areas within their areas of operation. The State ERAF legislation provided a statutory formula for distributing the ERAF payments to redevelopment agencies. The legislation did not provide a statutory formula for the distribution of payment responsibility to project areas of the agencies. The project areas managed by Centre City Development Corporation ("CCDC") and Redevelopment Division reflect payments by project area consistent with the State methodology. The Southeastern Economic Development Corporation ("SEDC") spread the total proportional share for the four project areas with SEDC's area of management and then distributed project area allocations based upon a financial analysis of ability to pay for Fiscal Year 2010 payments.

Again, Housing Funds are not a source of funding ERAF payments for any of the Agency's seventeen (17) project areas. Attachment A provides a summary of the financial analysis.

Table 1 provides a summary of the Fiscal Year 2010 and Fiscal Year 2011 estimated ERAF payments by project area and operating unit.

**Table 1**  
**ERAF Distribution by Project Area**  
**FISCAL YEARS 2010 and 2011**

<b>Project Areas by Operating Entity</b>	<b>FY2010 ERAF Payment</b>	<b>FY2011 ERAF Payment*</b>	<b>ERAF Totals</b>
<b>Centre City Development Corporation</b>			
Centre City	\$ 36,220,251	\$ 7,449,907	\$43,670,158
Horton Plaza	\$3,449,659	\$ 709,531	\$4,159,190
<i>Subtotal</i>			<b>\$47,829,348</b>
<b>City Redevelopment Division</b>			
Barrio Logan	\$ 199,566	\$ 41,048	\$240,614
City Heights	\$3,939,948	\$ 810,408	\$4,750,356
College Community	\$ 261,258	\$ 53,737	\$314,995
College Grove	\$ 228,083	\$46,914	\$274,997
Crossroads	\$1,375,656	\$ 282,952	\$1,658,608
Grantville	\$ 170,718	\$ 35,113	\$205,831
Linda Vista	\$ 36,019	\$ 7,408	\$43,427
Naval Training Center	\$1,438,049	\$ 295,787	\$1,733,836
North Bay	\$2,618,178	\$ 538,520	\$3,156,698
North Park	\$2,092,219	\$ 430,338	\$2,522,557
San Ysidro	\$1,357,581	\$ 279,235	\$1,636,816
<i>Subtotal</i>			<b>\$16,538,735</b>
<b>Southeastern Economic Development Corporation</b>			
Central Imperial	\$ 210,404	\$164,461	\$374,865
Gateway Center West	\$ 147,633	\$ 23,183	\$170,816
Mount Hope	\$ 858,144	\$ 120,178	\$978,322
Southcrest	\$1,099,591	\$ 168,491	\$1,268,082
<i>Subtotal</i>			<b>\$2,792,085</b>
<b>AGENCY TOTAL</b>	<b>\$ 55,702,957</b>	<b>\$ 11,457,211</b>	<b>\$67,160,168</b>

\* 2011 payment distribution reflects application of the State formula for all 17-project areas.

**AGENCY LONG TERM AND SHORT TERM DEBT TO THE CITY**

**LONG TERM DEBT**

The City of San Diego has assisted in the capitalization of City redevelopment activities to advance the goals and objectives of the redevelopment plans and activities. Such City



investment generally takes place to help spur growth and activity during the early years of the life of a redevelopment project area. The City's capitalization and participation in these revitalization efforts demonstrates to community members, property owners and investors the City's commitment to the revitalization of its older urbanized communities. After the first years of a project area, tax increment growth reduces and eliminates the need for further City participation. The growth of tax increment varies by redevelopment project area depending upon the types and levels of new development opportunity and investment and the level and type of public improvements necessary to ready an area for new investment opportunities.

A goal of the City and the Agency has been to replenish City equity investment funds as project areas prosper and adequate tax increment is available. The City adopted resolutions to document these investments as loans between the City and Agency "to be repaid as soon as practicable from tax increment or other appropriate revenues, from the respective project area". Most of the loans go back to the early years of the respective project areas. It is a common practice for cities to "seed" early project area activities anticipating repayment of these expenses in the later years of the life of the project area when project area activities are complete and tax increment is available for repayment of debt to the city.

The City initially recorded these capital or equity investments as non-interest bearing loans. In 1981, the City added interest to all Agency debt to the City thereby increasing the level of debt to the City. The City's basis for computing the interest rate on loans to the Agency was set at "the maximum rate allowed by law" which in 1981 was 10% interest per year. In Fiscal Year 1983 the maximum rate was increased to 12% and continued at that rate for the next ten (10) years. The City Council adopted a resolution on July 28, 1993 to amend the basis for interest charges on funds loaned by the City to the Agency as the Prime Interest Rate ("Prime Rate") plus 2%, up to the maximum allowed by law. Pursuant to that action, the Prime Rate plus 2% is updated annually, based on the Prime Rate as printed in the Wall Street Journal on the first Monday following January 1 of the calendar year in which the fiscal year begins. The new basis applied to all outstanding City loans to the Agency and was not retroactively applied prior to July 1, 1993. The Prime Rate plus 2% is computed at simple interest on the outstanding principal loan balance.

Agency payments on the loans are first applied to the accrued interest and only applied to reduce the principal if the interest is extinguished, resulting in continued growth of interest and little to no reduction in principal.

The City utilized a variety of investment vehicles as a means to assist in the revitalization effort. As of June 30, 2009, the cumulative Agency debt to the City is comprised of the following categories and corresponding principal and interest.

**Table 2**  
**LONG TERM DEBT TO CITY BY CATEGORY**  
**June 30, 2009**

<b>DEBT CATEGORY</b>	<b>PRINCIPAL (June 30, 2009)</b>	<b>INTEREST (June 30, 2009)</b>	<b>TOTAL</b>
Sales Tax	\$ 5,040,733	\$ 5,377,070	\$ 10,417,803
Industrial Dev Bonds	\$ 90,840	\$ 119,909	\$ 210,749
CDBG	\$ 69,249,993	\$ 99,559,741	\$ 168,809,734
CDBG Section 108	\$ 29,181,647	\$ 30,441,118	\$ 59,622,765
EDI Grant	\$ 720,000	\$ 820,373	\$ 1,540,373
Capital Outlay	\$ 8,114,229	\$ 5,511,029	\$ 13,625,258
Sewer Funds	\$ 613,327	\$ 502,068	\$ 1,115,395
Water Funds	\$ 357,636	\$ 291,026	\$ 648,662
TransNet Prop A	\$ 1,241,474	\$ 1,630,786	\$ 2,872,259
General Fund	\$ 1,340,990	\$ 804,739	\$ 2,145,729
Route 252 Acq/Mitigation	\$ 2,515,453	\$ 5,073,463	\$ 7,588,916
<b>Totals Agency Debt to City</b>	<b>\$ 118,466,322</b>	<b>\$ 150,131,322</b>	<b>\$ 268,597,644</b>
<b>Total Excluding CDBG</b>	<b>\$ 20,034,682</b>	<b>\$ 20,130,463</b>	<b>\$ 40,165,145</b>

Data Source: The Office of the City Comptroller

### Long Term Debt Category Summary

#### *Sales Tax*

The City utilized sales tax funds to capitalize initial project area activities, such as land acquisition, public improvements and administrative costs. Tax increment growth replaces the need for such capitalization. The City Council adopted resolutions documenting these expenditures as interest bearing loans between the City and Agency. Barrio Logan, College Community, College Grove, Crossroads, Linda Vista, North Park, San Ysidro, Central Imperial, Mount Hope and Southcrest currently have debt to the City in the Sales Tax category.

#### *Industrial Development Bonds ("IDB's")*

The City had excess IDB funds of \$90,840 at the completion of a senior housing project. These excess IDB funds were transferred to the Barrio Logan affordable housing fund and used to reduce an outstanding loan with Bank of America for the Mercado Apartments affordable housing development in Barrio Logan. The City Council adopted a resolution documenting this expenditure as a interest bearing loan between the City and Agency and a debt to the Barrio Logan Redevelopment Project Area.



***Community Development Block Grant (“CDBG”) Funds***

The City utilized CDBG funds within redevelopment project area boundaries for capital projects, land acquisition and associated expenses to advance shared redevelopment and CDBG goals and objectives. The City Council adopted resolutions documenting these expenditures as loans between the City and Agency. Centre City, Barrio Logan, City Heights, College Community Crossroads, Grantville, Linda Vista, Naval Training Center, North Park, San Ysidro, Central Imperial, Gateway Center West, Mount Hope and Southcrest currently have debt to the City in the CDBG category.

***CDBG Section 108***

The Federal Department of Housing and Urban Development (“HUD”) CDBG Section 108 loan program (“Section 108”) is a means for municipalities to advance CDBG funds for qualifying CDBG eligible activities. The City has used this program to advance important projects within CDBG eligible neighborhoods throughout the City. Annual CDBG allocations fund the annual loan payments. At the time of receiving certain Section 108 loans, the City Council adopted resolutions documenting the expenditure of these funds as loans between the City and Agency to the associated project areas.

Columbia and Marina subareas of Centre City and City Heights carry debt related to Section 108 loans that have been paid in full. The original Section 108 loan amount is still carried as a debt of the Agency and continues to accrue interest even though the Section 108 loans no longer exist.

There are four active Section 108 loans related to redevelopment project areas:

- 1995 land acquisition for Mercado del Barrio development site in Barrio Logan Redevelopment Project Area
  - \$7,200,000 – original loan amount
  - the loan is serviced by annual CDBG allocations
  - \$3,905,000 - principal balance
  - \$ 597,875 – interest due to maturity
  - 2015 – end of loan term
  - HUD wants Agency CDBG payments to fund the defeasance of this loan and the project to proceed expeditiously and in compliance with the purpose of the 108 loan
  - \$16,033,738 (\$7,200,000 principal + \$8,833,738 interest) current Agency debt to City relating to this loan
  
- 1998 and 1999 land acquisition and public improvements for the Valencia Business Park within the Central Imperial Redevelopment Project Area
  - \$6,835,000 original combined loan amount
  - the loan is serviced by annual CDBG allocations
  - \$4,230,000 – principal balance
  - \$ 887,936 – interest due to maturity
  - 2017 – end of term

- HUD wants Agency CDBG payment to fund the defeasance of this loan and the balance of the project to move forward pursuant to the purpose of the 108 loan
- \$5,168,555 (\$3,313,785 principal + \$1,854,770 interest) current Agency debt to City relating to this loan
  
- 2004 Naval Training Center Promenade improvements
  - \$5,910,000 original loan amount
  - the loan is serviced by annual NTC tax increment
  - \$5,291,000 – principal balance
  - \$2,770,598 – interest due to maturity
  - 2024 – end of term
  - Project is completed
  
- 2000 City Heights Regional Transportation Center
  - \$2,500,000 original loan amount
  - the loan is serviced by the project developer/owner
  - \$1,980,000 – principal balance
  - \$734,753 – interest due to maturity
  - 2020 – end of term
  - Project is completed

***Economic Development Initiative (“EDI”) Grant***

EDI Grant funds were received by the City to assist in the acquisition of land for the Mercado del Barrio development site and carried as an interest bearing loan from the City to the Agency and debt of the Barrio Logan Redevelopment Project Area.

***Capital Outlay***

Historically the City participated in some redevelopment activities by contributing City parcels of land and/or right-of-way. The estimated value of the land was carried as an interest-bearing loan from the City to the Agency. Barrio Logan, City Heights, North Bay, Central Imperial, Gateway Center West, Mount Hope and Southcrest currently have debt to the City in the Capital Outlay category.

***Sewer and Water Funds***

City sewer funds and water funds were utilized for sewer and water improvements within the Marina Subarea (approximately \$600,000) and Expansion Subarea (approximately \$358,000) of the Centre City redevelopment project and carried as interest bearing loans from the City to the Agency and debt of the Centre City Redevelopment Project Area.

***TransNet Prop A***

The City invested TransNet funds for transportation improvements such as street improvements and medians within the City Heights, College Community, Central Imperial, Mount Hope and



Southcrest project areas. These investments are carried as interest bearing loans from the City to the Agency of the corresponding project area.

***General Fund***

The City utilized general fund dollars in the form of interest bearing loans to the Agency to capitalize land acquisition for early implementation of redevelopment and the construction of public improvements such as sewer, water, storm drains, parks, sidewalks, curbs, gutters, and street lights. Naval Training Center is the only project area with current General Fund debt.

***Route 252 Acquisition/Mitigation***

The Agency purchased 66 acres of the rescinded 252 Corridor from CALTRANS. The Agency utilized \$1,003,200 of Southcrest tax increment to fund a down payment. The Agency executed a promissory note with CALTRANS for \$2,340,800. Quarterly payments were to be made over a ten (10)-year term with 10.5% interest applied to the unpaid principal. The City also had set up two special funds for Route 252 Acquisition and Mitigation totaling \$3,200,000. Funds from these Route 252 funds were utilized to pay off the CALTRANS note thereby saving \$478,000 in future interest payments. The total Route 252 fund expenditures of \$2,525,453 is carried as a loan from the City to the Agency. The current outstanding debt to Southcrest in this category is \$7,588,916 (\$2,515,453 principal + \$5,073,563 interest). Southcrest is the only project area with Route 252 Acquisition/Mitigation debt.

Table 3, displayed on the next page, provides a summary of Agency long term debt to the City by project area.

**Table 3**  
**AGENCY LONG TERM DEBT TO CITY**  
**BY PROJECT AREA**

Project Areas by Operating Entity	6-30-09 Principal	6-30-09 Interest	TOTAL P & I
<b>Centre City Development Corporation</b>			
Centre City	\$ 43,184,407	\$ 77,097,589	\$ 120,281,997
Horton Plaza	0	0	0
<i>Subtotal</i>			<b>\$ 120,281,997</b>
<b>City Redevelopment Division</b>			
Barrio Logan	\$ 12,826,041	\$ 14,200,707	\$ 27,026,748
City Heights	\$ 8,562,522	\$ 7,360,256	\$ 15,922,778
College Community	\$ 721,591	\$ 922,661	\$ 1,644,252
College Grove	\$ 40,963	\$ 32,758	\$ 73,721
Crossroads	\$ 793,294	\$ 393,559	\$ 1,186,853
Grantville	\$ 506,729	\$ 188,644	\$ 695,373
Linda Vista	\$ 1,945,141	\$ 4,529,295	\$ 6,474,436
Naval Training Center	\$ 6,920,990	\$ 971,992	\$ 7,892,982
North Bay	\$ 1,735,391	\$ 676,803	\$ 2,412,194
North Park	\$ 1,687,879	\$ 1,306,636	\$ 2,994,515
San Ysidro	\$ 739,446	\$ 963,303	\$ 1,702,749
<i>Subtotal</i>			<b>\$ 68,026,599</b>
<b>Southeastern Economic Development Corporation</b>			
Central Imperial	\$ 18,915,935	\$ 14,926,393	\$ 33,842,328
Gateway Center West	\$ 6,529,466	\$ 14,546,646	\$ 21,076,113
Mount Hope	\$ 3,918,314	\$ 1,664,355	\$ 5,582,669
Southcrest	\$ 9,438,214	\$ 10,349,726	\$ 19,787,939
<i>Subtotal</i>			<b>\$ 80,289,049</b>
<b>AGENCY TOTAL</b>	<b>\$ 118,466,322</b>	<b>\$ 150,131,322</b>	<b>\$ 268,597,644</b>
<b>TOTAL EXCLUDING CDBG</b>	<b>\$ 20,034,682</b>	<b>\$ 20,130,463</b>	<b>\$ 40,165,145</b>

**SHORT TERM DEBT**

**Agency Short Term Liabilities**

The Agency has outstanding accounts payable to the City totaling \$1,667,763 associated with costs incurred prior to Fiscal Year 2006 by the City Planning and Community Investment Department (formerly the City's Community and Economic Development Department). The liabilities are for pre-Fiscal Year 2006 staff costs of the Redevelopment Division and are payable to the City's General Fund. A summary of the liabilities is provided in the table below. The Agency proposes to pay \$650,272 of this liability this fiscal year and will propose a budget amendment to facilitate this payment.



**Table 4A  
 AGENCY SHORT TERM LIABILITIES TO THE CITY**

<b>Project Area</b>	<b>Accounts Payable to the City</b>	<b>Recommended Action</b>	<b>Proposed Reimbursement FY 2010</b>	<b>Proposed Reimbursement in Future Years</b>
<b>City Heights</b>	\$59,379	Direct Staff to prepare a budget amendment for consideration by the Agency Board that will enable reimbursement to the City's General Fund this Fiscal Year.	\$59,379	\$ 0 Paid in Full
<b>College Grove</b>	\$130,185	Direct Staff to prepare a budget amendment for consideration by the Agency Board that will enable reimbursement to the City's General Fund this Fiscal Year.	\$130,185	\$ 0 Paid in Full
<b>Crossroads</b>	\$37,708	Direct Staff to prepare a budget amendment for consideration by the Agency Board that will enable reimbursement to the City's General Fund this Fiscal Year.	\$37,708	\$ 0 Paid in Full
<b>North Bay</b>	\$2,196	Direct Staff to prepare a budget amendment for consideration by the Agency Board that will enable reimbursement to the City's General Fund this Fiscal Year.	\$2,196	\$ 0 Paid in Full
<b>North Park</b>	\$220,803	Direct Staff to prepare a budget amendment for consideration by the Agency Board that will enable reimbursement to the City's General Fund this Fiscal Year.	\$220,803	\$ 0 Paid in Full
<b>Barrio Logan</b>	\$665,803	Direct Staff to submit prepare for consideration an Agency Action to reclassify Note as Long Term Debt to the City payable from the Barrio Logan Redevelopment Project Area	\$0	Classify as Long Term Debt
<b>College Community</b>	\$551,688	Direct Staff to prepare a budget amendment for consideration by the Agency Board that will enable partial reimbursement to the City's General Fund this Fiscal Year.	\$200,000	\$351,688 Proposed to be paid at a rate of \$100,000 per Fiscal Year starting in FY 2011 until paid in full (See Payment Schedule below)
<b>Total</b>	<b>\$1,667,763</b>		<b>\$650,272</b>	<b>\$1,017,491</b>

The balance of the liability (\$1,017,491) pertains to pre Fiscal Year 2006 staffing costs associated with the Barrio Logan Redevelopment Project Area (\$665,803), and the College Community Redevelopment Project Area (\$351,688).

**Short Term Liabilities – Barrio Logan:** The Barrio Logan Redevelopment Project Area has been burdened with prolonged legal and litigation expenditures and is unable to remit payment on this liability until the need for outside special legal counsel diminishes and depleted fund balances are restored through future tax increment receipts. Given these circumstances and the relatively large size of the liability for this Project Area (equaling that of the annual budget of the Project Area), it is recommended this liability be classified as a long term debt obligation of the Project Area. If implemented, the long term debt of the Project Area (see Table 3) would increase by \$665,803 (2.46%) from \$27,026,748 to \$27,692,551.

**Short Term Liabilities – College Community:** Similar to the Barrio Logan Redevelopment Project Area, the short term liability for the College Community Redevelopment Project Area is relatively large in relation to the Project Area’s annual budget. In addition, College Community has a unique onetime requirement to remit a \$750,000 settlement payment to the San Diego State University Foundation this Fiscal Year. Due to these circumstances, it is recommended for College Community to limit the liability reimbursement to \$200,000 in Fiscal Year 2010, and subsequently reimburse \$100,000 per year until the liability is paid in full. Under this schedule, the liability for College Community would be paid in full in Fiscal Year 2014.

Table 4B illustrates the reimbursement schedule for the College Community short term liability.

**Table 4B  
 PROPOSED SHORT TERM LIABILITY REIMBURSEMENT SCHEDULE  
 COLLEGE COMMUNITY REDEVELOPMENT PROJECT AREA**

<b>Fiscal Year</b>	<b>Proposed Reimbursement to City General Fund</b>	<b>Outstanding Balance Due</b>
INITIAL	-	\$ 531,688
FY 2010	\$200,000	\$ 331,688
FY 2011	\$100,000	\$ 231,688
FY 2012	\$100,000	\$ 131,688
FY 2013	\$100,000	\$ 31,688
FY 2014	\$31,688	0

**AGENCY DEBT PAYMENT**

**Long Term Debt**

The City’s investment in redevelopment supports and advances redevelopment activities. The City realizes increases in sales tax, business fees and transient occupancy tax from these investments. Redevelopment tax increment provides a source of revenue to support the project



areas, which would otherwise require ongoing City revenue to address deficits in public facilities and capital projects. The Agency funds public improvements such as parks, community buildings, streetlights, sidewalks and other infrastructure that would otherwise require City funding.

The City's practice of documenting the investments in redevelopment as loans is not a requirement of law but a prudent practice and a long term strategy to secure an opportunity for the City to capture a return on investment when a project area is successful in providing a tax increment stream to the City after the project area activities are complete. In many cases, these loans are repaid during the final ten (10) years of the life of a project area when the Agency pursuant to California Redevelopment Law ("CRL") can no longer implement project area activities but can continue to receive tax increment funds as long as the project area continues to have debt. This provides agencies and cities the opportunity to focus tax increment funds on projects and activities to meet the goals and objectives of the redevelopment, community, and general plans.

Tax increment from the Centre City Project Area has already paid back millions of dollars to retire Agency debt to the City. During the period 1977-1984, the City capitalized Centre City Redevelopment Project Area activities with \$26 million of City General Fund Revenue (i.e. sales tax, TOT funds) and \$16.5 million of CDBG allocations. These funds assisted land acquisition for early implementation of redevelopment and the construction of public improvements, including sewer, water, storm drains, parks, sidewalks, curbs, gutters, and street lights.

During the period from 1990 through 2005, approximately \$81 million of Centre City debt to the City (principal and interest) was paid back to the City's General Fund accounts. No Centre City General Fund debt remains.

In contrast, other project areas have made few repayments as all of the tax increment is vital to the revitalization effort. In some cases, payments have been made on debt of one project area in order to loan an equal amount of money to other redevelopment project areas in need of capitalization.

The Agency has utilized millions of dollars of tax increment to fund necessary infrastructure and capital improvements. In addition, the Agency has improved City land, purchased land, developed parks, and transferred land and associated improvements to the City at no cost. These are expenses that would otherwise become a financial burden to City capital funding accounts. Unfortunately, the value of these public facilities and project area improvements has not been treated as in-kind contributions toward retiring the associated project area debt to the City.

All seventeen (17)-project areas have public improvements, capital projects and development objectives far greater than can be accomplished with any one year of tax increment. Many projects require multi-year funding. The Redevelopment Plans, 5-Year Implementation Plans, Annual Budget and work programs, and Community Plans and the General Plan all illustrate the long-range strategies for neighborhood revitalization. All of the project areas are experiencing

set-backs at the present time due to property devaluations, the demands of the State ERAF, other City debt obligations taken on by the Agency, and HUD's demand that a repayment plan of the Agency's CDBG debt to the City be initiated in Fiscal Year 2010. These factors all contribute to the challenge of taking on additional debt repayment schedules and continuing to move forward with community revitalization plans.

### **Summary of Proposal to Initiate Repayment CDBG Debt**

#### ***Background***

The Office of the Inspector General ("OIG") of the U.S. Department of Housing and Urban Development ("HUD") audited the City's CDBG program with specific attention to CDBG funded activities within redevelopment project areas. The OIG issued its audit report to HUD's Office of Community Planning and Development on December 30, 2008 (Attachment B). The OIG asserts, among the many findings and recommendations that the City failed to execute loan agreements and repayment schedules for the CDBG funds recorded as interest bearing loans from the City to the Agency. The OIG was provided with City/Agency staff reports and resolutions documenting the transaction the resolutions documenting that it was the intent to repay these loans "as soon as practicable from tax increment or other appropriate revenues, from the respective project area".

In addition, the OIG recommended that HUD require the City to execute written interagency agreements and loan agreements with the Agency for these outstanding loan amounts and initiate repayment plans, prematurely diverting Agency resources intended for redevelopment activities to debt service on the CDBG loans.

The OIG findings related to Agency debt to the City carried as "CDBG Loans" on the Agency debt schedules. The OIG's report did not address the CDBG Section 108 loans carried by the Agency as debt to the City. HUD's concern relating to the CDBG Section 108 loans is the lack of performance on the development of the Valencia Business Park and Mercado del Barrio pursuant to the Section 108 loan requirements. They have not made any recommendations relating to the City and Agency's treatment of these Section 108 loans carried as debt of the Agency. HUD is recommending that a portion of CDBG program income realized from payments on the CDBG Loan category should be allocated to initiate the defeasance of the Valencia Business Park and Mercado del Barrio Section 108 loans.

Representatives of the City and Agency have been working closely with HUD representatives over the last year to develop a plan to address the OIG's findings. The City greatly appreciates the time HUD representatives have devoted to understanding the overarching goal of these loans and the resulting positive impact realized by the City's most underserved neighborhoods. HUD, Agency and City representatives have agreed upon a proposed payment plan to present to their corresponding agencies.



***Proposed CDBG Repayment Term Summary***

The Agency staff worked diligently to develop reasonable payment schedules and terms to make meaningful payments in response to the OIG recommendations without undermining revitalization efforts. The Horton Plaza, College Grove and North Bay project areas do not carry CDBG debt therefore were not part of the long term review of ability to pay CDBG debt. Projected annual and current tax increment, projected ERAF obligations, CDBG debt recommendations per the OIG report, other Agency debt to the City and associated interest were important factors considered in developing payment schedules for each project area.

Initially, Agency staff looked at payment time frames which in some cases extended out to the end of the life of the project areas in order to continue implementing redevelopment activities. HUD eventually recommended a 10 year repayment schedule. It was also agreed that the primary focus would be the repayment of an amount equal to the cumulative CDBG principal discussed in the OIG report. HUD requested a significant “first year” payment as a demonstration of the City’s commitment to returning funds to the City’s CDBG program. HUD also requests that the City commit that the full 20% allowable for CDBG Program Administration be allocated to ensure adequate oversight.

Following months of discussions and evaluations, the following basic terms are recommended:

HUD requirements:

- Ten (10)-year repayment schedule as follows:

<b>City Fiscal Year</b>	<b>Payment</b>
2010	\$ 3,633,800
2011	\$ 3,294,500
2012	\$ 3,842,200
2013	\$ 3,976,900
2014	\$ 4,392,400
2015	\$ 6,519,700
2016	\$ 9,156,000
2017	\$ 12,795,700
2018	\$ 14,772,800
2019	\$ 16,402,800
<b>Total</b>	<b>\$ 78,787,000</b>

- All payments are to be treated as program income to the San Diego CDBG Program.
- Source of payments is at the discretion of the City of San Diego.
- Payment of \$78,787,000 is considered the full obligation of the repayment.

- HUD's acceptance of any proposal would be contingent upon the City Council adopting a policy that would commit 20% of the annual payment to the category of Planning and Administration in order to ensure adequate staffing and accountability.
- A minimum of \$2,000,000 of each annual payment will be applied to the defeasance of the Barrio Logan and Central Imperial Section 108 loans, until adequate funds have been deposited with a defeasance agent to satisfy the remaining term of the 108 payments to enable these loans to be paid off quickly and removed from the City's CDBG Program liability.
- The balance of the program income resulting from the payments will be allocated to other eligible CDBG expenses and activities through the City's CDBG Program established allocation process.

Additional recommendations:

- Annual payments shall be made pursuant to Repayment Agreement between the City and the Agency.
- All payments shall be made in compliance with the payment schedule included as Attachment C.
- Interest accrual on all Agency CDBG debt categories (CDBG & CDBG Section 108) is retroactively discontinued effective June 30, 2007 as long as the Agency meets the terms of the Repayment Agreement.
- After all required annual repayments are made by the Agency, the total balance of CDBG related debt remaining upon the expiration of the ten (10) year period on June 30, 2019, shall be forgiven by the City in its entirety, regardless of whether said balance includes principal and/or accrued interest.
- All repayments made by the Agency on behalf of each Project Area shall be applied first to principal and then to accrued interest.
- All repayments made by the Agency pursuant to the Repayment Agreement and all obligations and any indebtedness of the Agency to the City created by the Repayment Agreement shall be subordinate to any pledge of tax increment to the bond holders of any tax increment bonds which have been issued or may be issued by the Agency.
- Repayments by the Agency can be made using tax increment funds, land proceeds, or other revenues of the Agency.
- The Agency and the City shall each keep full and accurate books and accounts, records and other pertinent data showing their financial operations with respect to the holding and disbursement of the monies comprising the repayments provided for in the Repayment Agreement. Upon completion of the activities contemplated by the Repayment Agreement, the Agency and the City shall each prepare a report accounting for the use of the funds.



- The Agency and the City will agree to mutual indemnification and hold harmless provisions.

**Repayment of Non-CDBG Long Term Debt to the City**

The balance of Agency debt to the City equals approximately \$20,000,000 of principal and \$20,000,000 interest accrual as of June 30, 2009. Table 5 illustrates the non-CDBG debt (CDBG Loan and Section 108 categories) by project area. It should be noted that the project areas with the higher levels of City debt are those with the least ability to pay in the near-term.

Table 5, displayed on the next page, provides a summary of Agency non-CDBG related debt to the City by project area.

**Table 5**  
**NON-CDBG RELATED AGENCY DEBT TO CITY**  
**June 30, 2009**

Project Areas by Operating Entity	6-30-09 Principal	6-30-09 Interest	TOTAL P & I
<b>Centre City Development Corporation</b>			
Centre City	\$ 970,963	\$ 793,094	\$ 1,764,057
Horton Plaza	0	0	0
<i>Subtotal</i>			<b>\$ 1,764,057</b>
<b>City Redevelopment Division</b>			
Barrio Logan	\$ 3,667,925	\$ 2,551,265	\$ 6,219,190
City Heights	\$ 451,611	\$ 137,999	\$ 589,610
College Community	\$ 356,591	\$ 491,740	\$ 848,331
College Grove	\$ 40,963	\$ 32,758	\$ 73,721
Crossroads	\$ 15,000	\$ 125,248	\$ 340,248
Grantville	\$ -	\$ -	\$ -
Linda Vista	\$ 1,134,450	\$ 2,319,682	\$ 3,454,132
Naval Training Center	\$ 1,340,990	\$ 804,739	\$ 2,145,729
North Bay	\$ 1,735,391	\$ 676,803	\$ 2,412,194
North Park	\$ 48,607	\$ 13,746	\$ 162,353
San Ysidro	\$ 2,446	\$ 3,463	\$ 5,909
<i>Subtotal</i>			<b>\$ 16,251,417</b>
<b>Southeastern Economic Development Corporation</b>			
Central Imperial	\$ 1,974,055	\$ 2,714,665	\$ 4,688,721
Gateway Center West	\$ 929,728	\$ 1,382,020	\$ 2,311,748
Mount Hope	\$ 3,489,137	\$ 1,509,852	\$ 4,998,988
Southcrest	\$ 3,576,824	\$ 6,573,390	\$ 10,150,214
<i>Subtotal</i>			<b>\$ 22,149,671</b>
<b>AGENCY TOTAL</b>			<b>\$ 40,165,174</b>

**ASSESSED VALUATION DECLINE**

The Assessed Valuation of the properties within the Redevelopment Project Areas is the basis for Tax Increment revenue, the Agency’s primary revenue source. While Assessed Valuation conditions vary widely across the Agency’s 17 Project Areas, Assessed Valuation is down in several of the Project Areas as depicted in the table below:

**Table 6  
 PROJECT AREA INCREMENTAL ASSESSED VALUATION**

<b>Project Areas by Operating Entity</b>	<b>Incremental Assessed Valuation FY 09</b>	<b>Incremental Assessed Valuation FY 10</b>	<b>Percentage Change</b>
<i>Centre City Development Corporation</i>			
<b>Centre City</b>	\$ 12,149,159,155	\$ 12,033,717,362	-0.95%
<b>Horton Plaza</b>	\$ 853,711,534	\$ 794,577,695	-6.9%
<i>City Redevelopment Division</i>			
<b>Barrio Logan</b>	\$ 68,477,206	\$ 68,035,115	-0.6%
<b>City Heights</b>	\$ 1,409,800,831	\$ 1,165,593,710	-17.3%
<b>College Community</b>	\$ 110,685,993	\$ 108,008,506	-2.4%
<b>College Grove</b>	\$ 80,851,015	\$ 84,551,324	4.6%
<b>Crossroads</b>	\$ 427,310,853	\$ 351,364,009	-17.8%
<b>Grantville</b>	\$ 100,367,748	\$ 122,742,408	22.3%
<b>Naval Training Ctr</b>	\$ 452,973,530	\$ 493,387,145	8.9%
<b>Linda Vista</b>	\$ 9,079,983	\$ 10,355,552	14.0%
<b>North Bay</b>	\$ 852,384,535	\$ 877,859,019	3.0%
<b>North Park</b>	\$ 745,178,791	\$ 715,933,767	-3.9%
<b>San Ysidro</b>	\$ 576,001,384	\$ 528,157,942	-8.3%
<i>Southeastern Economic Development Corporation</i>			
<b>Central Imperial</b>	\$ 251,764,118	\$ 220,289,280	-12.5%
<b>Gateway Ctr West</b>	\$ 31,566,454	\$ 64,642,213	.2%
<b>Mount Hope</b>	\$ 168,390,603	\$ 142,100,123	-15.6%
<b>Southcrest</b>	\$ 257,851,533	\$ 215,000,047	-16.6%

The decline in Assessed Valuation has necessitated a reduction in Program Budgets for several of the project areas as illustrated in Table 7 (see next page). Staff recommends that the Agency amend Program Budgets for certain project areas to reduce the appropriations accordingly.



**Table 7  
 IMPACT OF ASSESSED VALUATION DECLINE  
 ON PROJECT AREA BUDGETS**

<b>Project Areas by Operating Entity</b>	<b>Capital Projects Budget Reduction</b>	<b>Low/Mod Housing Budget Reduction</b>	<b>Total Budget Reduction</b>	<b>TI % Reduction</b>
<i>City Redevelopment Division</i>				
<b>City Heights</b>	\$ 1,857,570	\$ 464,393	\$ 2,321,963	16.6%
<b>College Community</b>	<sup>(1)</sup> \$ 14,192	\$ 3,623	\$ 17,815	1.6%
<b>North Park</b>	\$ 193,330	\$ 48,332	\$ 241,662	3.3%
<b>San Ysidro</b>	\$ 355,376	\$ 88,844	\$ 444,220	8.3%
<b>Crossroads</b>	\$ 494,368	\$ 123,592	\$ 617,960	15.0%
<i>Southeastern Economic Development Corporation</i>				
<b>Central Imperial</b>	\$ 249,000	\$ 179,933	\$ 428,933	13.7%
<b>Mount Hope</b>	\$ 422,600	\$ 22,507	\$ 445,107	13.5%
<b>Southcrest</b>	\$ 290,000	\$ 87,533	\$ 377,533	17.6%
<b>RDA Total</b>	<b>\$ 3,876,436</b>	<b>\$ 1,018,757</b>	<b>\$ 4,895,193</b>	

(1) Funds are presently appropriated as debt service to the SDSU Foundation.

FISCAL CONSIDERATIONS: The ERAF will reduce the funds available for investment this year in the City's redevelopment communities by approximately \$55.7 million. In addition to the impact of the ERAF, the decline in property Assessed Valuations across many of the redevelopment project areas is requiring the Agency to reduce Project Budgets by cumulative total of \$4.9 Million this Fiscal Year. When submitted for approval, the CDBG Repayment Plan will transfer \$3.6 million from the Agency to the City's CDBG Program this Fiscal Year.

PREVIOUS COUNCIL AND/OR COMMITTEE ACTION:

The City Council Budget Committee met on September 30, 2009 to discuss the Fiscal Year 2010 and Fiscal Year 2011 ERAF and 2010 proposed CDBG payments and financial analysis by project area.

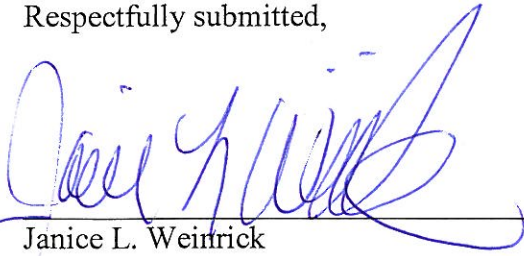
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Redevelopment PAC's have been updated on ERAF and CDBG on a regular basis. On September 30, 2009, the SEDC Board recommended approval of a budget amendment to accommodate ERAF and Assessed Valuation declines. On September 9, 2009 the Centre City Advisory Committee was informed on the ERAF and on September 16, 2009, the CCDC Board recommended approval of a budget amendment to accommodate ERAF.

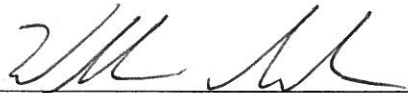
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Residents, property and business owners, community-based organizations, and low and moderate income households will realize a reduction in the implementation of the revitalization of their communities resulting from the anticipated ERAF and CDBG payments.

Respectfully submitted,



Janice L. Weirrick  
Agency Deputy Executive Director



William Anderson  
Agency Assistant Executive Director

Attachments:

- A - ERAF & CDBG FY2010 Redevelopment Project Budget Stress Test Summary
- B - Audit Report, Office of Inspector General, December 30, 2008
- C - Proposed Agency Repayment Schedule – Relating to December 30, 2008 OIG Report