

DATE ISSUED: May 15, 2002.REPORT NO. RA-02-10
..... CMR-02-108

ATTENTION: Honorable Chair and Members of the Redevelopment Agency/
Honorable Mayor and Members of the City Council
Docket of May 21, 2002

SUBJECT: Redevelopment Agency Fiscal Year 2003 Proposed Budget

SUMMARY

Issues -

- 1) Should the Redevelopment Agency approve:
 - a) the Fiscal Year 2003 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC)?
 - b) the Fiscal Year 2003 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC)?
 - c) the Fiscal Year 2003 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department?
 - d) the Fiscal Year 2003 administration budget for the Centre City Development Corporation (CCDC)?
 - e) the Fiscal Year 2003 administration budget for the Southeastern Economic Development Corporation (SEDC)?
- 2) With respect to SEDC's Fiscal Year 2003 Proposed Budget, should the Redevelopment Agency take the following actions:
 - a) authorize a loan repayment to the City of San Diego in the amount of \$2,221,459 from the Mount Hope Redevelopment Project area?
 - b) accept a transfer of \$2,221,459 from the City of San Diego as an interest bearing loan to be used in the proposed FY 2003 Project budget for implementation costs to augment the Southcrest and Central Imperial Redevelopment Project Areas associated with the repayment to the City of San Diego which partially reimbursed outstanding CDBG loans to the Central Imperial, Mt. Hope and Gateway Center West Redevelopment Project Areas?
 - c) direct the City Auditor to record the \$2,221,459 as an interest-bearing loan from the City of San Diego to be repaid as soon as practicable from tax increment or other

appropriate revenues?

- 3) With respect to SEDC's Fiscal Year 2003 Proposed Budget, should the City Council take the following actions:
- a) accept a loan repayment to the City of San Diego in the amount of \$2,221,459 from the Mt. Hope Redevelopment Project Area?
 - b) direct the City Auditor to record the \$2,221,459 as an interest bearing loan to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues?
 - c) authorize the transfer of \$2,221,459 from the City of San Diego as an interest bearing loan to be used in the proposed Fiscal Year 2003 project budget to augment the Central Imperial (\$1,241,459) and Southcrest (\$980,000) Redevelopment Project Areas?
 - d) authorize the reprogramming of CDBG funds from Central Imperial Fund No. 98779/98779 (18536) in the amount of \$769,374 to augment Central Imperial (General) Fund No. 98770?
 - e) authorize the reprogramming of CDBG funds from Southcrest Project Area (Fund 98335) in the amount of \$445,000 to Southcrest Project Area (Fund 98330/97171)?

Executive Director's Recommendation -

- 1) Approve the Redevelopment Agency Fiscal Year 2003 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC), the Southeastern Economic Development Corporation (SEDC), and the Redevelopment Division of the Community and Economic Development Department, and the Fiscal Year 2003 administration budgets for CCDC and SEDC.
- 2) Authorize a loan repayment to the City of San Diego in the amount of \$2,221,459 from the Mount Hope Redevelopment Project area, and accept a transfer of \$2,221,459 from the City of San Diego to be recorded as an interest bearing loan to be used in the proposed FY 2003 Project budget for implementation costs to augment the Southcrest and Central Imperial Redevelopment Project Areas associated with the repayment to the City of San Diego which partially reimbursed outstanding CDBG loans to the Central Imperial, Mt. Hope and Gateway Center West Redevelopment Project Areas.

City Manager's Recommendation -

- 3) Accept a loan repayment to the City of San Diego in the amount of \$2,221,459 from the Mt. Hope Redevelopment Project Area, direct the City Auditor to record the \$2,221,459 as an interest bearing loan to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues, authorize the transfer of \$2,221,459 from the City of San Diego as an interest bearing loan to be used

in the proposed Fiscal Year 2003 project budget to augment the Central Imperial (\$1,241,459) and Southcrest (\$980,000) Redevelopment Project Areas, and authorize the reprogramming of CDBG funds from Central Imperial Fund No. 98779/98779 (18536) in the amount of \$769,374 to augment Central Imperial (General) Fund No. 98770, and the reprogramming of CDBG funds from Southcrest Project Area (Fund 98335) in the amount of \$445,000 to Southcrest Project Area (Fund 98330/97171).

Other Recommendations - At their meetings of April 17 and April 24, 2002, the CCDC and SEDC Board of Directors voted to recommend to the Redevelopment Agency approval of the CCDC and SEDC Fiscal Year 2003 Budgets.

Fiscal Impact - The Redevelopment Agency Proposed Fiscal Year 2003 Budget totals \$128.6 million. In addition, \$77.3 million in appropriations will continue from the current fiscal year, for a grand total of \$205.9 million. The Agency's activities are financed through tax increment revenue, bond and developer proceeds, interest, rent, loans from the City and grants from other agencies.

BACKGROUND

Direction was given this year to incorporate the budgets of the City's agencies and related entities into the City's annual budget process, which included the presentation of all of these budgets to the Mayor and City Council in the City Manager's Proposed Budget on May 6. For the first time, the Redevelopment Agency budget is included in the City Manager's Proposed Budget Document, in Volume 6. In the past, the Agency budget had been produced separately.

The City's budget process calls for budget hearings to be held during the month of May, with the resulting direction from the Mayor and City Council incorporated into the Annual Appropriation Ordinance, which is brought back for adoption typically the last week of July.

It is recommended that the Fiscal Year 2003 Redevelopment Agency budget be approved following the review at this meeting, as typically has been the case in the past, to allow for funding needs and additional appropriations to be authorized that will be immediately required.

The Proposed Fiscal Year 2003 Redevelopment Agency Budget will support activities in the fifteen redevelopment project areas and three study areas administered for the Agency by Centre City Development Corporation, Southeastern Economic Development Corporation, and the City's Redevelopment Division of the Community and Economic Development Department (City Redevelopment).

Agency Organization

The City Council is the Board of Directors of the Redevelopment Agency; the City Manager is the Executive Director. Project implementation for the Agency is provided by three organizations:

Centre City Development Corporation (CCDC)
Southeastern Economic Development Corporation (SEDC)

Redevelopment Division of the City's Community and Economic Department

Centre City Development Corporation

In 1975, the City Council established the Centre City Development Corporation as a non-profit public corporation to implement redevelopment projects in the downtown area. The Corporation is governed by a seven-member Board of Directors appointed by the City Council. CCDC administers the Centre City and Horton Plaza project areas and reports to the Council on such matters.

Southeastern Economic Development Corporation

The Southeastern Economic Development Corporation was established as a non-profit corporation by the City Council in 1981 and is governed by a nine-member Board of Directors appointed by the City Council. SEDC also carries out projects for the City in Southeast San Diego and reports to the Council on such matters.

SEDC administers four adopted project areas, and one study area:

Central Imperial

Gateway Center West

Mount Hope

Southcrest

Dells Imperial Study Area

City Redevelopment

The Redevelopment Division manages nine redevelopment project areas, and two survey areas. The division also performs general administration for the Redevelopment Agency, coordinating budget and State reporting requirements and maintaining the Agency's meeting docket, official records, and website.

The project areas managed by the division include:

Barrio Logan
City Heights
College Community
College Grove
Linda Vista
Naval Training Center
North Bay
North Park
San Ysidro

City Redevelopment also oversees the Crossroads Survey Area, which is in the midst of the plan adoption process, with project area committee formation underway. The Market Street Industrial Park project was terminated in December 2000 as it had reached its established limit of tax increment and the plan objectives had been achieved. Interest remains high for the ongoing expansion of the Barrio Logan project area for it to be a viable project area in to the future.

DISCUSSION

Fiscal Year 2003 revenue totals \$128.6 million, and \$77.3 million is revenue carried over from the prior year for multi-year projects, for a grand total of \$205.9 million. Due to the size and scope of many redevelopment projects, revenues are received in one year and expended over the course of two to three years. Sources of revenues include tax increment, interest and rents, bond proceeds, developer proceeds, and loans and grants to the Agency from the City and other agencies.

**Redevelopment Agency
Fiscal Year 2003 Revenue
(In Thousands)**

Tax Increment	\$48,286
PY Tax Increment	2,893
Bond Proceeds	32,900
Reloans	2,866
Interest/Rent	10,841
Developer Proceeds	19,382
Other	11,484
Total FY 2003 Revenue	\$128,652
FY 2002 Carryover	77,280
Total Project Revenue	\$205,932

The Agency's largest source of revenue is tax increment, which is generated from the growth in the assessed value within each project area. The Fiscal Year 2003 budget includes \$48.3 million in tax increment revenue. The Agency has statutory and contractual obligations that dictate the use of portions of the tax increment revenue it receives: 1) California redevelopment law requires the Agency to set-aside 20% of the tax increment revenue that it receives from each project area for low and moderate income housing projects; 2) Some project areas that were adopted prior to 1994 are subject to tax-sharing agreements with the school districts, the County, and other impacted taxing entities within the project area; and 3) Project areas adopted since January 1, 1994 are subject to a statutory, three-tiered tax-sharing formula, which for the first ten years results in 20% of tax increment to be allocated to the taxing agencies in those project areas.

Gross tax increment generated in FY 2003 is estimated at \$48.3 million. A significant amount of this revenue is committed to low and moderate income housing set-asides, tax-sharing agreements/requirements, and debt service and loan repayments.

After these obligations are met, net tax increment available to the Agency for public and private development in Fiscal Year 2003 will be approximately \$10.3 million, just over 21% of the tax increment received.

FY 2003
Net Tax Increment
(In Thousands)

Tax Increment	\$48,286
Less:	
Housing Set-aside	\$9,350
Tax-Sharing Agreements	\$4,066
<u>Debt Service</u>	<u>\$24,594</u>
<u>Subtotal</u>	<u>\$38,010</u>
Net Tax Increment	\$10,276

In addition to tax increment, the Agency will receive approximately \$32.9 million from the proceeds of the proposed sale of tax allocation bonds/parking revenue bonds for the Centre City, Mount Hope and San Ysidro project areas, with \$19.4 million estimated to be received from developers, \$10.6 million from interest earnings and rent, and \$2.87 million in reloans from the City. Other revenue of \$11.48 million includes adjustment for prior year revenues with an additional \$77.3 million in funds previously programmed and authorized for expenditure in previous years.

Fiscal Year 2003 expenditures total \$205.9 million. Of the total, \$126.5 million is allocated to capital projects, \$24.5 million is allocated to low and moderate income housing projects, \$10.85 million to administration (including legal and planning efforts), with \$5.9 million allocated to tax-sharing agreements/requirements, \$31.66 million to be appropriated for debt service and loan repayments, and \$6.4 million to be reserved for bond requirements.

Affordable Housing

Redevelopment Law requires the Agency to set-aside 20% of the tax increment revenue from each project area into a separate fund for low and moderate income housing. In Fiscal Year 2002, the 20% set-aside amount is estimated to reach almost \$8.5 million. An additional \$9.4 million is estimated to be received in Fiscal Year 2003. The Agency has obligations for low income housing beyond the 20% set-aside. At least 15% of all new housing within a redevelopment project area must be restricted to low and moderate income households, and all low and moderate income housing units demolished as part of a redevelopment project within a project area must be replaced by the Agency, one for one, within four years. The Agency leverages the 20% set-aside with additional funds to meet this requirement. If new market rate housing or commercial development removes low and moderate income housing as part of the redevelopment program, replacement and inclusionary requirements must be met.

The Committee on Land Use and Housing held a meeting in April 2002 to discuss affordable housing and possible strategies to address the growing needs. One identified funding mechanism is the use of the Redevelopment Agency housing funds and the leveraging of these funds with a potential bond issuance to provide resources for this purpose. Housing funds from all of the project areas may be used to address affordable housing needs, in conjunction with other financing tools. The Agency organizations are working together to identify potential projects and structuring financing options to make the best use of available funds in the most cost-effective manner.

While the proposed budget for the Agency does not include the proceeds of a proposed bond issuance for this purpose, work will be done to identify policy issues and to bring forward estimates of project costs and potential funding mechanisms that will contribute towards a comprehensive strategy to address affordable housing needs. Amendments to the budget at a later date may be necessary to carry out possible options.

Regional Revolving Loan Fund

The Community and Economic Development Department, together with the Redevelopment Agency, are in the process of

developing a San Diego Regional Revolving Loan Fund. The City has been officially invited by the Economic Development Administration (EDA) to apply for, and expects to be successful in receiving, grant funds in the amount of \$1.2 million, that when matched by funds from the City and other jurisdictions, will provide a \$2.4 million revolving loan fund. The proposed partner cities of Chula Vista, National City, and Imperial Beach may each contribute funds to allow for participation of businesses in their jurisdictions. In order to demonstrate to EDA that sufficient matching funds will be available, the proposed budget for the Redevelopment Agency includes the ability of various project areas to repay City loans in order for the City to have matching funds available. CCDC is in the process of taking actions to also contribute to the proposed program to allow for business participation in the Centre City area.

Actual loan repayments to the City from each project area will be dependent on the approval of the revolving loan fund program by the City Council and the actual receipt of grant funds, and for approved loan projects to be in, or in the vicinity of, the project area that is providing the matching funds. Each loan will be approved on an individual basis depending on availability of funds and the particular Council District's prior approval to proceed. These "place holder" matching funds would in no way affect the Agency's bonding capacity or ability to complete existing or planned projects.

SEDC City Loans/Re loans

The funding sources for the CDBG loan repayment of \$2,221,459 are derived from tax allocation bond proceeds generated in Mt. Hope Project area. The proposed loan of \$2,221,459 would partially reimburse outstanding CDBG loans to the Mt. Hope Project area. It is requested that the Agency borrow back the total amount of \$2,221,459 to augment the Southcrest and Central Imperial Redevelopment Project Areas. It should be noted that whenever SEDC receives CDBG funds from the City of San Diego CDBG Annual Allocation, the funding is recorded as debt by the Agency. Repayment of CDBG loans is a financing mechanism allowed under Redevelopment law. The above-mentioned funds will be used in the FY 2003 Program Budget for project implementation costs, planning and administration, City services, redevelopment, legal services, environmental, financial services and construction of public improvements.

USES FUND NO. AMOUNT

Southerest - National City Mitigation	983344	\$ 480,000
Southerest - Linear Park	98335	500,000
Central Imperial - Imperial Marketplace	98780	450,000
Central Imperial - Valencia Business Park	98779/98779x	<u>791,459</u>
Rehab.		
Total Re loans		\$2,221,459

Administration

Administration expenses include staff and non-personnel expenses in addition to consultant fees and payments to the City for General Government Services, Attorney and Auditor Services, as well as for City staff charges related to Planning and Development Review for work related to Redevelopment Agency projects. The Agency reimburses the City for Redevelopment staff services, and SEDC and CCDC cover a portion of the administration expenses incurred by City Redevelopment for coordinating Agency-wide activities, and also pay their respective portions for work done on their behalf by other City departments.

The administration budgets of each of the corporations are included with their memoranda to the Agency in the materials attached to this report. Also attached are project budget details, including objectives and accomplishments included with the materials for each respective entity.

CONCLUSION

The Redevelopment Agency Proposed Fiscal Year 2003 Budget totals \$128.6 million. In addition, \$77.3 million in continuing appropriations will carry over from the current fiscal year, bringing the total authorized funds to \$205.9 million. The Agency's activities are financed from tax increment revenue, bond and developer proceeds, interest, rent, loans from the City and grants from other agencies. Revenues to be received by the Agency are expected to increase, though with commensurate expectations related to project activities and needs. In the coming fiscal year, gross tax increment revenue, one of the primary sources of funding for redevelopment activity, is expected to increase by \$8.7 million from Fiscal Year 2002.

Respectfully submitted,

Carolyn Y. Smith Peter J. Hall
SEDC President CCDC President

Approved: Hank Cunningham Todd Hooks
Assistant Executive Director Deputy Executive Director

Approved: Bruce Herring
Deputy City Manager

Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

ATTACHMENTS

1. Redevelopment Agency Fiscal Year 2003 Budget Summary
2. CCDC Fiscal Year 2003 Proposed Project and Administrative Budget
3. SEDC Fiscal Year 2003 Proposed Project and Administrative Budget
4. City Redevelopment Fiscal Year 2003 Proposed Project Budget

Due to the size of the attachments, distribution is limited. Copies of the attachments may be viewed at the office of the City Clerk, or the Redevelopment Agency.