

DATE ISSUED: June 11, 2003

REPORT NO. RA-03-17
CMR-03-118

ATTENTION: Honorable Chair and Members of the Redevelopment Agency/
Honorable Mayor and Members of the City Council
Docket of June 17, 2003

SUBJECT: Redevelopment Agency Fiscal Year 2004 Proposed Budget

SUMMARY

Issues -

- 1) Should the Redevelopment Agency approve:
 - a) the Fiscal Year 2004 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC)?
 - b) the Fiscal Year 2004 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC)?
 - c) the Fiscal Year 2004 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department?
 - d) the Fiscal Year 2004 administration budget for the Centre City Development Corporation (CCDC)?
 - e) the Fiscal Year 2004 administration budget for the Southeastern Economic Development Corporation (SEDC)?
- 2) With respect to SEDC=s and City Redevelopment's Fiscal Year 2004 Proposed Budgets, should the Redevelopment Agency:
 - a) Authorize loan repayments to the City of San Diego in the amount of \$130,000 from the Mount Hope Redevelopment Project Area, and \$2.6 million from the City Heights Redevelopment Project Area?
 - b) Accept a transfer of \$130,000 from the City of San Diego as an interest bearing loan to be used in the proposed FY 2004 Project budget for

implementation costs for the Central Imperial Redevelopment Project Area?

c) Accept a transfer of \$400,000 from the City of San Diego as an interest bearing loan to be used in the proposed Fiscal Year 2004 project budget to provide funds to the newly formed Crossroads Redevelopment Project Area?

d) Direct the City Auditor to record both the \$130,000 and \$400,000 as interest bearing loans to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues of the respective project areas?

3) Should the Redevelopment Agency determine that the planning and administration expenses to be funded in Fiscal Year 2004 by the Low and Moderate Income Housing Funds are necessary for the production, improvement, and/or preservation of affordable housing for low and moderate income households?

4) With respect to SEDC=s and City Redevelopment=s Fiscal Year 2004 Proposed Budget, should the City Council:

a) Accept loan repayments to the City of San Diego in the amount of \$130,000 from the Mt. Hope Redevelopment Project Area and \$2.6 million from the City Heights Redevelopment Project Area?

b) Direct the City Auditor to record the \$130,000 and \$400,000 as interest bearing loans to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues of the respective project areas?

c) Authorize the transfer from the City of San Diego of \$130,000 to the Central Imperial Redevelopment Project Area and \$400,000 to the Crossroads Redevelopment Project Area as interest bearing loans to be used in the proposed Fiscal Year 2004 project budget?

Executive Director=s Recommendation –

1) That the Redevelopment Agency should approve:

a) the Fiscal Year 2004 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC).

b) the Fiscal Year 2004 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC).

c) the Fiscal Year 2004 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department.

d) the Fiscal Year 2004 administration budget for the Centre City Development Corporation (CCDC).

e) the Fiscal Year 2004 administration budget for the Southeastern Economic Development Corporation (SEDC).

2) With respect to SEDC=s and City Redevelopment's Fiscal Year 2004 Proposed Budgets, that the Redevelopment Agency should:

a) Authorize loan repayments to the City of San Diego in the amount of \$130,000 from the Mount Hope Redevelopment Project Area, and \$2.6 million from the City Heights Redevelopment Project Area.

b) Accept a transfer of \$130,000 from the City of San Diego as an interest bearing loan to be used in the proposed FY 2004 Project budget for implementation costs for the Central Imperial Redevelopment Project Area.

c) Accept a transfer of \$400,000 from the City of San Diego as an interest bearing loan to be used in the proposed Fiscal Year 2004 project budget to provide funds to the newly formed Crossroads Redevelopment Project Area.

d) Direct the City Auditor to record both the \$130,000 and \$400,000 as interest bearing loans to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues of the respective project areas.

3) That the Redevelopment Agency should determine that the planning and administration expenses to be funded in Fiscal Year 2004 by the Low and Moderate Income Housing Funds are necessary for the production, improvement, and/or preservation of affordable housing for low and moderate income households

City Manager=s Recommendation -

4) With respect to SEDC=s and City Redevelopment's Fiscal Year 2004 Proposed Budget, that the City Council should:

a) Accept loan repayments to the City of San Diego in the amount of \$130,000 from the Mt. Hope Redevelopment Project Area and \$2.6 million from the City Heights Redevelopment Project Area.

b) Direct the City Auditor to record the \$130,000 and \$400,000 as interest bearing loans to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues of the respective project areas.

c) Authorize the transfer from the City of San Diego of \$130,000 to the Central Imperial Redevelopment Project Area and \$400,000 to the Crossroads Redevelopment Project Area as interest bearing loans to be used in the proposed Fiscal Year 2004 project budget.

Other Recommendations - At their meetings of May 14 and May 27, 2003, the CCDC and SEDC Board of Directors voted to recommend to the Redevelopment Agency approval of the CCDC and SEDC Fiscal Year 2004 Budgets. Budget information has

been or will be presented to several project area committees (PACs) during the month of June.

Fiscal Impact - The Redevelopment Agency Proposed Fiscal Year 2004 Budget totals \$169.2 million. In addition, \$90.9 million in appropriations will continue from the current fiscal year, for a grand total of \$260.1 million. The Agency's activities are financed through tax increment revenue, bond and developer proceeds, interest, rents, loans from the City and grants from other agencies.

BACKGROUND

The Redevelopment Agency budget was presented to the Mayor and City Council as part of 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 2004 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 2004 Redevelopment Agency Budget will support activities in the sixteen redevelopment project areas and two 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 serves as 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 Southeastern 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 ten redevelopment project areas, and a survey area. 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
- Crossroads
- Linda Vista
- Naval Training Center
- North Bay
- North Park
- San Ysidro

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DISCUSSION

The Redevelopment Agency's Fiscal Year 2004 revenue is estimated to total \$169.2 million, and \$90.9 million in revenue will be carried over from the prior year for multi-year projects, for a grand total of \$260.1 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 (or more) 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 2004 Revenue**
(In Thousands)

Tax Increment	\$57,251
PY Tax Increment	2,043
Bond Proceeds	61,634
Re loans	735
Interest/Rent	9,630
Developer Proceeds	15,850
City Loans	6,182
Other	15,944
<u>Total FY 2004</u>	<u>\$169,269</u>
<u>FY 2003 Carryover</u>	<u>90,865</u>
Total Project Revenue	\$260,134

The Agency's major source of revenue is tax increment, which is generated from the growth in the assessed value of properties within each project area. The Fiscal Year 2004 budget includes \$57.3 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.

In addition, recent actions by the State Legislature have required redevelopment agencies statewide to contribute to the Educational Revenue Augmentation Fund (ERAF) to assist the State in meeting its obligations for maintaining required levels of funding for education while the State experiences budget difficulties. In Fiscal Year 2003, the Redevelopment Agency of the City of San Diego contributed \$1.3 million for this purpose. Legislation related to future ERAF contributions is currently the subject of much debate in Sacramento. Agency staff is working closely with the California Redevelopment Association (CRA), the City's Governmental Relations Department, and other organizations to ensure redevelopment has an opportunity to continue to be an effective tool for local governments and communities, and that large amounts of funding are not redirected, thereby undermining the efforts of redevelopment agencies across the State.

Gross tax increment generated in FY 2004 is estimated to reach \$57.3 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 2004 will be approximately \$10.2 million, just 17.9% of the tax increment received.

FY 2004
Net Tax Increment
(In Thousands)

Tax Increment	\$57,251
Less:	
Housing Set-aside	\$10,880
Tax-Sharing Agreements	\$5,686
Debt Service	\$30,457
Subtotal	\$47,023
Net Tax Increment	\$10,228

In addition to tax increment, the Agency expects to receive approximately \$61.6 million from the proceeds of the proposed sale of tax allocation bonds, and low/mod housing bonds for the Centre City, Horton Plaza, North Park and San Ysidro project areas

Fiscal Year 2004 expenditures total \$169.3 million. Of the total, \$54.9 million is allocated to capital projects, \$49.9 million is allocated to low and moderate income housing projects, \$13.3 million to administration (which for City Redevelopment includes legal and planning efforts, and support from several City departments), with \$6.2 million allocated to tax-sharing agreements/requirements, and \$39.5 million to be appropriated for debt service and loan repayments.

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 2003, the 20% set-aside amount is estimated to reach almost \$10.9 million. 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 Redevelopment Agency released the Notice of Funding Availability (NOFA) in February 2003 to seek proposals from qualified developers and development teams to construct new affordable housing units in the City of San Diego. This program seeks proposals for residential or mixed-use developments; housing that is all low-income or mixed-income; multi- and/or single-family dwelling units; as well as rental and/or for-sale units. Proposals were accepted starting March 3, 2003, and the first project submissions have been received. Reviews are underway to determine funding needs and project viability, and will move forward towards a recommendation. The City Council and Agency have made this a priority, and are committed to adding new affordable housing units to the City. Funds have been included in the budget for bonds proposed to be issued for affordable housing projects.

Pursuant to Section 33334.3 (d) of the California Community Redevelopment Law (Health and

Safety Code Section 33000 et seq.) it is the intent of the California State Legislature that the amount of money spent for planning and general administration from the Low and Moderate Income Housing Fund not be disproportionate to the amount actually spent for the cost of production. Because of this, it is necessary that the Redevelopment Agency take specific action indicating that it has determined that amounts budgeted for administrative and planning activities within the Agency's Low and Moderate Income Housing Funds are necessary for its plans for the production, improvement, and/or preservation of low-and moderate-income housing during Fiscal Year 2004.

City Loan Repayments/Re loans

Other funding sources for the Agency include loans from the City. The Fiscal Year 2004 Agency Budget includes loan repayments to the City, and a reloan of a portion of these funds back to the Agency to fund project implementation costs for project areas that have no other sources of funding.

For the City Heights project area, tax increment, net of housing set-aside and tax sharing requirements generated in the project area have been held in reserve since 1999, and unavailable for project activities. Estimated at \$4.7 million, the Fiscal Year 2004 budget allocates these reserve funds to repay developer loans and other interim sources that have been utilized during this period. The budget includes the repayment to the City of \$2.2 million to the CDBG program for funds provided for the Urban Village Library/Park project, and \$1.0 million advanced for project area administration and other costs since 1999. In addition, it is proposed that the City Heights Project Area repay the City \$400,000 in order to provide funds for a City loan to the newly formed Crossroads Redevelopment Project Area to fund implementation costs until tax increment is generated, starting in Fiscal Year 2005.

The budget also proposes the repayment of \$130,000 from the Mt. Hope Redevelopment Project Area, and the reloan of these funds to the Central Imperial Redevelopment Project Area, to fund project implementation activities.

Administration

Administration expenses include staff and non-personnel expenses. For City Redevelopment project areas, administration also includes fees for consultant services, payments to the City for General Government Services, City Attorney and Auditor Services, as well as 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 2004 Budget totals \$169.2 million. In

addition, \$90.9 million in continuing appropriations will carry over from the current fiscal year, bringing the total authorized funds to \$260.1 million. The Agency=s activities are financed from tax increment revenue, bond and developer proceeds, interest and rents, 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.

Respectfully submitted,

Carolyn Y. Smith
SEDC President

Peter Hall
CCDC President

Approved: Hank Cunningham
Assistant Executive Director

Todd G. Hooks
Deputy Executive Director

Approved: Bruce Herring
Deputy City Manager

ATTACHMENTS

1. [Redevelopment Agency Fiscal Year 2004 Budget Summary](#)
2. CCDC Fiscal Year 2004 Proposed Project and Administrative Budget
3. SEDC Fiscal Year 2004 Proposed Project and Administrative Budget
4. City Redevelopment Fiscal Year 2004 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.