

DATE ISSUED: June 9, 2004

REPORT NO. RA-04-15
CMR-04-113

ATTENTION: Honorable Chair and Members of the Redevelopment Agency/
Honorable Mayor and Members of the City Council
Docket of June 15, 2004

SUBJECT: Redevelopment Agency Fiscal Year 2005 Proposed Budget

SUMMARY

Issues -

- 1) Should the Redevelopment Agency approve:
 - a) the Fiscal Year 2005 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC)?
 - b) the Fiscal Year 2005 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC)?
 - c) the Fiscal Year 2005 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department?
 - d) the Fiscal Year 2005 administration budget for the Centre City Development Corporation (CCDC)?
 - e) the Fiscal Year 2005 administration budget for the Southeastern Economic Development Corporation (SEDC)?
- 2) With respect to SEDC=s and City Redevelopment's Fiscal Year 2005 Proposed Budgets, should the Redevelopment Agency:
 - a) Authorize loan repayments to the City of San Diego in the amount of \$395,000 from the Mount Hope Redevelopment Project Area, and \$699,003 from the Southcrest Redevelopment Project Area?

- b) Accept a transfer of \$1,094,003 from the City of San Diego as an interest bearing loan to be used in the proposed FY 2005 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 2005 project budget to provide funds to the newly formed Grantville Redevelopment Survey Area, provided that the City Auditor first furnishes a certificate that sufficient funds are, or will be, on deposit in the City Treasury?
 - d) Direct the City Auditor to record both the \$1,094,003 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 2005 by the Low and Moderate Income Housing Funds are necessary and in proportion to the funding being provided 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 2005 Proposed Budget, should the City Council:
- a) Accept loan repayments to the City of San Diego in the amount of \$395,000 from the Mt. Hope Redevelopment Project Area and \$699,003 from the Southcrest Redevelopment Project Area?
 - b) Direct the City Auditor to record the \$1,094,003 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 \$1,094,003 to the Central Imperial Redevelopment Project Area as interest bearing loans to be used in the proposed Fiscal Year 2005 project budget?
 - d) Authorize the transfer from the City of San Diego of \$400,000 to the Grantville Redevelopment Survey Area as interest bearing loans to be used in the proposed Fiscal Year 2005 project budget, provided that the City Auditor first furnishes a certificate that sufficient funds are, or will be, on deposit in the City Treasury?

Executive Director=s Recommendation –

- 1) That the Redevelopment Agency should approve:
 - a) the Fiscal Year 2005 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC).

- b) the Fiscal Year 2005 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC).
- c) the Fiscal Year 2005 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department.
- d) the Fiscal Year 2005 administration budget for the Centre City Development Corporation (CCDC).
- e) the Fiscal Year 2005 administration budget for the Southeastern Economic Development Corporation (SEDC).

2) With respect to SEDC=s and City Redevelopment’s Fiscal Year 2005 Proposed Budgets, that the Redevelopment Agency should:

- a) Authorize loan repayments to the City of San Diego in the amount of \$395,000 from the Mount Hope Redevelopment Project Area, and \$699,003 from the Southcrest Redevelopment Project Area.
- b) Accept a transfer of \$1,094,003 from the City of San Diego as an interest bearing loan to be used in the proposed FY 2005 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 2005 project budget to provide funds to the newly formed Grantville Redevelopment Survey Area, provided that the City Auditor first furnishes a certificate that sufficient funds are, or will be, on deposit in the City Treasury.
- d) Direct the City Auditor to record both the \$1,094,003 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 2005 by the Low and Moderate Income Housing Funds are necessary and in proportion to the funding being provided 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 2005 Proposed Budget, that the City Council should:

- a) Accept loan repayments to the City of San Diego in the amount of \$395,000

from the Mt. Hope Redevelopment Project Area and \$699,003 from the Southcrest Redevelopment Project Area.

b) Direct the City Auditor to record the \$1,094,003 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 \$1,094,003 to the Central Imperial Redevelopment Project Area as interest bearing loans to be used in the proposed Fiscal Year 2005 project budget.

d) Authorize the transfer from the City of San Diego of \$400,000 to the Grantville Redevelopment Survey Area as interest bearing loans to be used in the proposed Fiscal Year 2005 project budget, provided that the City Auditor first furnishes a certificate that sufficient funds are, or will be, on deposit in the City Treasury.

Other Recommendations - At their meetings of April 28 and May 26, 2004, the SEDC and CCDC Board of Directors voted to recommend to the Redevelopment Agency approval of the SEDC and CCDC Fiscal Year 2005 Budgets. Budget information has been presented to each of the project area committees (PACs) during the months of April and May.

Fiscal Impact - The Redevelopment Agency Proposed Fiscal Year 2005 Budget totals \$176.7 million. In addition, \$156.5 million in appropriations will continue from the current fiscal year, for a grand total of \$333.2 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. 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 2005 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 Redevelopment Agency Proposed Fiscal Year 2005 Budget will support activities in the sixteen redevelopment project areas and three study/survey 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 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
- Crossroads
- Linda Vista
- Naval Training Center
- North Bay
- North Park
- San Ysidro

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In addition, the division oversees the Barrio Logan Expansion Study Area, and the Grantville Survey Area.

DISCUSSION

The Redevelopment Agency’s Fiscal Year 2005 revenue is estimated to total \$176.7 million, and \$156.5 million in revenue will be carried over from the prior year for multi-year projects, for a grand total of \$333.2 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 2005 Revenue
(In Thousands)**

Tax Increment	\$72,777
PY Tax Increment	2,409
Bond Proceeds	71,068
Reloans	1,294
Interest/Rent	10,357
Developer Proceeds	-2,357
City Loans	250
Other	20,925
Total FY 2005	\$176,723
FY 2004 Carryover	156,518
Total Revenue	\$333,241

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 2005 budget includes \$72.8 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 2004, the Redevelopment Agency of the City of San Diego contributed \$2.6 million for this purpose, based on a statewide \$125 million ERAF. The Governor’s proposed budget for the State of California includes a \$250 million statewide ERAF for the next two fiscal years. Following that period, it is proposed that ERAF

would be discontinued. If approved, San Diego’s contribution from the Redevelopment Agency is estimated at \$5.4 million. The proposed budget does not include the increases necessary to fund this higher level of ERAF, and an amendment would be required during the fiscal year to allow for this level of funding.

Gross tax increment to be generated in Fiscal Year 2005 is estimated to reach \$72.8 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 2005 will be approximately \$11.3 million, just 15.5% of the tax increment received.

FY 2005	
Net Tax Increment	
(In Thousands)	
Tax Increment	\$72,777
Less:	
ERAF	\$3,137
Housing Set-aside	\$14,230
Tax-Sharing Agreements	\$7,572
Debt Service	<u>\$36,493</u>
Subtotal	<u>\$61,432</u>
Net Tax Increment	\$11,345

In addition to tax increment, the Agency expects to receive approximately \$120 million from the proceeds of the proposed sale of tax allocation bonds, and low/mod housing bonds for the Centre City project area. A portion of these and other bond funds were previously anticipated in the Fiscal Year 2004 budget. Allowing for adjustments made to remove appropriations related to bond issues not yet ready to be initiated, and accounting for estimates of bonds already anticipated, the Fiscal Year 2005 budget expects additional bond revenue of \$71.0 million.

Fiscal Year 2005 expenditures total \$333.2 million, including continuing revenue. Of the total, \$202.1 million is allocated to capital projects, \$44.9 million is allocated to low and moderate income housing projects, \$14.9 million to administration (which for City Redevelopment includes legal and planning efforts, and support from several City departments), with \$12.2 million allocated to tax-sharing agreements/requirements, and \$56.0 million to be appropriated for debt service and loan repayments, and reserve requirements. In addition, budgeted levels of ERAF amount to \$3.1 million.

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. 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. Eleven applications have been received. Three projects have been approved, awarding Agency funding of \$11.3 million in order to create 261 units. It is anticipated that several applications will be submitted in the next few months, and additional applications are currently under review.

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 and are in proportion to the funding to be provided for the production, improvement, and/or preservation of low-and moderate-income housing during Fiscal Year 2005.

City Loan Repayments/Re loans

Other funding sources for the Agency include loans from the City. The Fiscal Year 2005 Agency Budget includes loan repayments to the City, and a reloan of these funds back to the Agency to fund project implementation costs for project areas that have no other sources of funding.

The budget proposes the repayment of loans in the amount of \$395,000 from the Mt. Hope Redevelopment Project Area, and \$699,003 from the Southcrest Redevelopment Project Area. It is recommended that these funds totaling \$1,094,003 be reloaned to the Central Imperial Redevelopment Project Area, to fund project implementation activities.

Additional funding is required to continue the plan adoption process for the Grantville Survey Area. The ability to accept additional City funding for this effort has been included in the Agency budget, and is contingent on the identification and availability of funding.

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 the Planning and Development Services Departments for their work related to Redevelopment Agency projects. The Agency funds reimburse 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.

The personnel and administrative costs related to City Redevelopment are reflected in the budget for the Community and Economic Development Department, with funding provided by the Redevelopment Agency.

CONCLUSION

The Redevelopment Agency Proposed Fiscal Year 2005 Budget totals \$176.7 million. In addition, \$156.5 million in continuing appropriations will carry over from the current fiscal year, bringing the total authorized funds to \$333.2 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

Debra Fischle-Faulk
Deputy Executive Director

Approved: Bruce Herring
Deputy City Manager

ATTACHMENTS

1. [Redevelopment Agency Fiscal Year 2005 Budget Summary](#)
2. [CCDC Fiscal Year 2005 Proposed Project and Administrative Budget](#)
3. [SEDC Fiscal Year 2005 Proposed Project and Administrative Budget](#)
4. [City Redevelopment Fiscal Year 2005 Proposed Project Budget](#)