

DATE ISSUED: June 9, 2005

REPORT NO. RA-05-24
CMR-05-142

ATTENTION: Honorable Chair and Members of the Redevelopment Agency/
Honorable Mayor and Members of the City Council
Docket of June 14, 2005

SUBJECT: Redevelopment Agency Fiscal Year 2006 Proposed Budget

SUMMARY

Issues -

- 1) Should the Redevelopment Agency approve:
 - a) the Fiscal Year 2006 Proposed Budget for projects administered by the Centre City Development Corporation (CCDC)?
 - b) the Fiscal Year 2006 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC)?
 - c) the Fiscal Year 2006 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department?
 - d) the Fiscal Year 2006 administration budget for the Centre City Development Corporation (CCDC)?
 - e) the Fiscal Year 2006 administration budget for the Southeastern Economic Development Corporation (SEDC)?
- 2) With respect to SEDC=s and City Redevelopment's Fiscal Year 2006 Proposed Budgets, should the Redevelopment Agency:
 - a) Authorize a CDBG loan repayment to the City of San Diego in the amount of \$600,000 from the Southcrest Redevelopment Project Area?

- b) Accept a transfer of \$600,000 from the City of San Diego as an interest bearing CDBG loan to be used in the proposed FY 2006 Project budget for implementation costs for the Central Imperial Redevelopment Project Area?
 - c) Accept a transfer of \$100,000 from the City of San Diego Council District 7 CDBG funds as an interest bearing loan to be used in the proposed Fiscal Year 2006 project budget to provide funds to the newly formed Grantville Redevelopment Project Area?
 - d) Direct the City Auditor to record both the \$600,000 and \$100,000 as interest bearing CDBG 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 2006 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 2006 Proposed Budget, should the City Council:
- a) Accept a CDBG loan repayment to the City of San Diego in the amount of \$600,000 from the Southcrest Redevelopment Project Area?
 - b) Authorize the transfer of \$600,000 from the City of San Diego to the Central Imperial Redevelopment Project Area as an interest bearing CDBG loan to be used in the proposed Fiscal Year 2006 project budget?
 - c) Authorize the transfer of \$100,000 from the City of San Diego Council District 7 CDBG funds to the Grantville Redevelopment Project Area as an interest bearing loan to be used in the proposed Fiscal Year 2006 project budget?
 - d) Direct the City Auditor to record the \$600,000 and \$100,000 as interest bearing CDBG loans to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues of the respective project areas?

Executive Director=s Recommendation –

- 1) That the Redevelopment Agency should approve:
 - a) the Fiscal Year 2006 Proposed Budget for projects administered by the Centre

City Development Corporation (CCDC).

b) the Fiscal Year 2006 Proposed Budget for projects administered by the Southeastern Economic Development Corporation (SEDC).

c) the Fiscal Year 2006 Proposed Budget for projects administered by the Redevelopment Division of the Community and Economic Development Department.

d) the Fiscal Year 2006 administration budget for the Centre City Development Corporation (CCDC).

e) the Fiscal Year 2006 administration budget for the Southeastern Economic Development Corporation (SEDC).

2) With respect to SEDC=s and City Redevelopment=s Fiscal Year 2006 Proposed Budgets, that the Redevelopment Agency should:

a) Authorize a CDBG loan repayment to the City of San Diego in the amount of \$600,000 from the Southcrest Redevelopment Project Area.

b) Accept a transfer of \$600,000 from the City of San Diego as an interest bearing CDBG loan to be used in the proposed FY 2006 Project budget for implementation costs for the Central Imperial Redevelopment Project Area.

c) Accept a transfer of \$100,000 from the City of San Diego Council District 7 CDBG funds as an interest bearing loan to be used in the proposed Fiscal Year 2006 project budget to provide funds to the newly formed Grantville Redevelopment Project Area.

d) Direct the City Auditor to record both the \$600,000 and \$100,000 as interest bearing CDBG 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 2006 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 2006 Proposed Budget, that the City Council should:

- a) Accept a CDBG loan repayment to the City of San Diego in the amount of \$600,000 from the Southcrest Redevelopment Project Area.
- b) Authorize the transfer of \$600,000 from the City of San Diego to the Central Imperial Redevelopment Project Area as an interest bearing CDBG loan to be used in the proposed Fiscal Year 2006 project budget.
- c) Authorize the transfer of \$100,000 from the City of San Diego Council District 7 CDBG funds to the Grantville Redevelopment Project Area as an interest bearing loan to be used in the proposed Fiscal Year 2006 project budget.
- d) Direct the City Auditor to record the \$600,000 and \$100,000 as interest bearing CDBG loans to the Redevelopment Agency to be repaid as soon as practicable from tax increment or other appropriate revenues of the respective project areas.

Other Recommendations - At their meetings of May 25, 2005, the SEDC and CCDC Board of Directors voted to recommend to the Redevelopment Agency approval of the SEDC and CCDC Fiscal Year 2006 Budgets.

Fiscal Impact - The Redevelopment Agency Proposed Fiscal Year 2006 Budget totals \$177.0 million. In addition, \$189.6 million in appropriations will continue from the current fiscal year, for a grand total of \$366.6 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 months of May and June, with the resulting direction from the Mayor and City Council incorporated into the Annual Appropriation Ordinance. The ordinance is typically brought back for adoption the last week of July.

It is recommended that the Fiscal Year 2006 Redevelopment Agency Budget be approved following the review at this meeting, as has been the case in the past, to allow for funding needs and additional appropriations to be authorized that will be immediately required.

Also included in the City Manager=s Proposed Budget is the reorganization of the City=s Community and Economic Development Department resulting in the transfer of the City=s Redevelopment Agency to an agency outside of the City. This action is a policy decision requiring further discussion regarding if, when and how the transfer would occur. A proposed implementation plan and actions related to the reorganization proposal will be prepared and brought forward in a separate report at a later date.

The Redevelopment Agency Proposed Fiscal Year 2006 Budget will support activities in the seventeen redevelopment project areas and two 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 Redevelopment Agency of the City of San Diego was created by the City Council in 1958 to alleviate conditions of blight in older, urban areas. The Redevelopment Agency is able to use special legal and financial mechanisms to eliminate blight and improve economic and physical conditions in designated areas of the City. This authority is conferred on the Agency through the state of California's Health and Safety Code (Section 33000-et.seq.), also known as the California Community Redevelopment Law.

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:

- ! Redevelopment Division of the City's Community and Economic Department
- ! Centre City Development Corporation (CCDC)
- ! Southeastern Economic Development Corporation (SEDC)

City Redevelopment

The Redevelopment Division manages eleven redevelopment project areas, and one 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
- Grantville
- Linda Vista
- Naval Training Center
- North Bay
- North Park
- San Ysidro

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

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

DISCUSSION

The Redevelopment Agency's Fiscal Year 2006 revenue is estimated to total \$177.0 million, and \$189.6 million in revenue will be carried over from the prior year for multi-year projects, for a grand total of \$366.6 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 2006 Revenue
(In Thousands)**

Tax Increment	\$95,862
PY Tax Increment	3,711
Bond Proceeds	49,603
Reloans	605
Interest/Rent	7,458
Developer Proceeds	7,227
City Loans	253
Other	12,300
<hr/> Total FY 2006	<hr/> \$177,019
FY 2005 Carryover	189,630
<hr/> Total Revenue	<hr/> \$366,649

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 2006 budget includes \$95.9 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, actions by the State Legislature over the past several years 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 2005, the Redevelopment Agency of the City of San Diego contributed \$5.4 million for this purpose, based on a statewide \$250 million ERAF. This statewide level of ERAF is expected to continue through Fiscal Year 2006. With growing tax increment revenues, San Diego’s share is estimated to increase, even with the total ERAF amount to remain constant. Because of this, the Agency’s proposed budget includes \$7.1 million to fund this requirement.

Gross tax increment to be generated in Fiscal Year 2006 is estimated to reach \$95.9 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 2006 will be approximately \$14.9 million, just 15.5% of the total tax increment received.

FY 2006	
Net Tax Increment	
(In Thousands)	
Tax Increment	\$95,862
Less:	
ERAF	\$6,869
Housing Set-aside	\$18,882
Tax-Sharing Agreements	\$12,758
Debt Service	\$42,429
Subtotal	\$80,938
Net Tax Increment	\$14,924

In addition to tax increment, the Agency expects to receive approximately \$49 million from the proceeds of the proposed sale of tax allocation bonds for the Centre City project area.

Fiscal Year 2006 expenditures total \$366.6 million, including continuing revenue. Of the total, \$114.1 million is allocated to capital projects, \$28.8 million is allocated to low and moderate income housing projects, \$20.1 million to administration (which for City Redevelopment includes legal and planning efforts, and support from several City departments), with \$18.8 million allocated to tax-sharing agreements/requirements, and \$61.5 million to be appropriated for debt service and loan repayments, and reserve requirements. In addition, budgeted levels of ERAF amount to \$7.1 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. To date, eighteen applications have been received. Six projects have been approved, awarding Agency funding of \$25.8 million in order to create 456 affordable units. An additional twelve projects with a potential for 1,032 affordable units and requests totaling \$74.35 million are 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 2006.

City Loan Repayments/Re loans

Other funding sources for the Agency include loans from the City. The Fiscal Year 2006 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 a CDBG loan in the amount of \$600,000 from the Southcrest Redevelopment Project Area. It is recommended that these funds be reloaned to the Central Imperial Redevelopment Project Area, to fund project implementation activities.

Additional funding is required to initiate plan implementation activities for the newly formed Grantville Redevelopment Project Area, in advance of the receipt of tax increment revenue, which is expected to begin in Fiscal Year 2007. Funds in the amount of \$100,000 are to be loaned from Council District 7 CDBG funds.

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 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 2006 Budget totals \$177.0 million. In addition, \$189.6 million in continuing appropriations will carry over from the current fiscal year, bringing the total authorized funds to \$366.6 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

Debra Fischle-Faulk
Deputy Executive Director

Approved: Ellen Oppenheim
Deputy City Manager

ATTACHMENTS

1. [Redevelopment Agency Fiscal Year 2006 Budget Summary](#)
2. [CCDC Fiscal Year 2006 Proposed Project and Administrative Budget](#)
3. [SEDC Fiscal Year 2006 Proposed Project and Administrative Budget](#)
4. [City Redevelopment Fiscal Year 2006 Proposed Project Budget](#)