THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 7, 2013 **IBA Report Number:** 13-20

Budget Review Committee: May 8 & May 9, 2013

Review of City Agencies FY 2014 Budgets

The IBA has reviewed City agencies budgets for FY 2014 including San Diego City Employees' Retirement System (SDCERS), San Diego Convention Center Corporation, San Diego Data Processing Corporation (SDDPC), San Diego Housing Commission, Successor Agency of the former Redevelopment Agency and Civic San Diego. These agencies are scheduled to be heard on Thursday, May 9th, with the exception of SDDPC which is expected to be heard on Wednesday, May 8th.

City Retirement System

The San Diego City Employees' Retirement System (SDCERS) FY 2014 proposed budget was presented as a non-action item to its Business and Governance Committee and full Board of Administration in mid-April 2013. The Committee and full Board will consider the budget in May 2013. Upon approval by the Committee on May 16, 2013, the full Board of Administration will consider the budget on May 17, 2013.

The City's budget document does not reflect the amounts in the SDCERS proposed budget, as it was not available at the time of publication.

The SDCERS proposed budget is scheduled to be presented as an informational item at the May 9, 2013 hearing of the Budget Review Committee.

SDCERS maintains that its budget is approved by its Board of Administration and does not require approval of City Council. Article XVI, Section 17 of the California Constitution conveys to the Board "plenary authority and fiduciary responsibility for investment of moneys and administration of the [pension] system..." However, per City Attorney's Report to Council 2005-18, the City maintains the authority to examine and audit the Board's accounts and records.

FY 2014 Operating Budget Adjustments

The table below presents a summary of the SDCERS proposed budget, by major category.

The $42.5 million proposed budget presented to the SDCERS Board shows an in-

SUMMARY OF BUDGET CHANGES

	FY 2013 Budget	FY 2014 Proposed	Increase/ (Decrease)	Percent Change
Salaries and Personnel	$7,532,000	$8,339,000	$807,000	10.7%
Information Technology	1,960,000	2,035,000	75,000	3.8%
Legal/External	1,925,000	1,577,000	(348,000)	-18.1%
General Operations	3,244,000	3,405,000	161,000	5.0%
Subtotal Administrative Expenses	$14,661,000	$15,356,000	$695,000	4.7%
Investment Management Expenses	24,669,000	27,126,000	2,457,000	10.0%
Subtotal Investment Management Expenses	$24,669,000	$27,126,000	$2,457,000	10.0%
TOTAL	**$39,330,000**	**$42,482,000**	**$3,152,000**	**8.0%**

Note that underlying fees of approximately $6 million have been removed from the FY 2013 budget since it was approved, due to the change in treatment of underlying fees for private equity and infrastructure investments—which SDCERS does not pay directly. Additionally, temporary labor of $105,000 was budgeted in the General Operations category in the FY 2013 approved budget, but it has been moved to the Salaries and Personnel category in the presentation of the FY 2013 and FY 2014 budgets above.

crease of $3.2 million, or 8.0%, from the $39.3 million FY 2013 budget. There are 58.0 budgeted positions, unchanged from FY 2013.

Investment Management Expenses represent 63.9% of the total SDCERS FY 2014 proposed budget, at $27.1 million. It is estimated that Investment Management Expenses will be 0.42% of assets under management, or 42 basis points, for FY 2014. Note that the most recent SDCERS CAFR indicates that for FY 2012, investment returns were lower than the 7.5% assumed rate of return for the pension system, at 0.9%—adding approximately $32 million to the pension system assets. Investment Management Expenses were 0.45% of assets under management for FY 2012.

The FY 2014 Investment Management Expenses budget is increasing over the FY 2013 budget by $2.5 million, or 10.0% (from $24.6 million to $27.1 million). This increase is largely due to increased assets under management, with an expected FY 2014 return of 7.5%.

Budgeted Administrative Expenses are increasing by $695,000 (4.7%), from $14.7 million in FY 2013 to $15.4 million in FY 2014. These expenses are 36.1% of the total SDCERS budget. Components of Administrative Expenses are discussed below.

The Salaries and Personnel budget category reflects an increase of $807,000, largely due to increases in fringe expenditures of $624,000, which are largely due to the increase in the Annual Required Contribution (ARC) to the pension system.

The budget for salaries is increasing by $196,000, $40,000 of which is due to raises and promotions, with the rest being due to step increases and the anticipation that vacancies occurring in FY 2013 will not occur in FY 2014.

There are no general salary increases budgeted, and the labor concessions that apply to City employees also apply to SDCERS employees. Note that the City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

The Information Technology budget for FY 2014 is increasing by $75,000 from FY 2013. This is largely due to the overlap in maintenance contracts for both the new IRIS pension administration system (see discussion under Capital Budget below) and the existing Pension Gold system.

The Legal/External budget category reflects a decrease of $348,000. This is primarily attributable to a decrease in litigation fees, which is largely due to the decline in workload for the substantially equal case. However, FY 2014 projected costs for the substantially equal case are being re-evaluated, as the trial date for this case has moved from May to July 2013. This expense is now expected to increase for FY 2014, rather than decrease as shown in the preliminary budget presented to the SDCERS Board in mid-April. A revised budget is expected to be presented to the Board in May.

For General Operations, there is an increase of $161,000, which is largely due to the increase in depreciation related to the new pension system, or IRIS.

Capital Budget

In addition to the operating budget, SDCERS presented a proposed capital budget to its Board. The capital budget is increasing from $1.6 million in FY 2013 to $3.1 million in FY 2014. The largest increase, of $1.4 million, is associated with the pension administration system replacement project.

This is a major software system conversion: from the current system, Pension Gold, to the Integrated Retirement Information System (IRIS).

The pension administration system tracks, records and processes employee contributions and retiree payments. IRIS will have new online features and information about individual retirement benefits through the online Member Portal. Additionally, several internal processes will be automated.

The FY 2013 budget for the IRIS project was $1.5 million and is $2.9 million for FY 2014, with the anticipated final payments for the project. The project is anticipated to cost $6.6 million in total, and is anticipated to be placed in service January 1, 2014.

Issues to Consider

In September 2011 the Office of the City Auditor released a performance audit of SDCERS, which provided 12 recommendations, five findings and background information on the retirement system.

The City Auditor's report was discussed at the December 5, 2011 Audit Committee meeting. The report was also presented to the full City Council on February 7, 2012.

SDCERS, and the City, where appropriate, provided responses to the City Auditor's recommendations. The responses are included in the City Auditor's report. Ten of the City Auditor's recommendations were directed toward SDCERS, and SDCERS responses demonstrate past analysis or implementation of the recommendations or anticipated future actions.

Recommendation #4 indicates that once the new pension administration system is implemented, SDCERS should reassess its staffing level. SDCERS responded to this recommendation that when the new system is implemented in 2014, they expect to be able to further streamline staffing levels. It was also conveyed that a possible 7.0 FTEs could be considered for reduction.

SDCERS plans to further evaluate the streamlining of staffing levels after a six-month stabilization period once the IRIS system goes live. Note that there is data cleansing work that will continue past the go-live date.

Convention Center

Overview

The Convention Center opened in November 1989 and an expansion, which doubled the size of the original building, opened in September 2001. A proposed Phase III expansion, that would increase the size of the Convention Center by 33 percent, is moving forward and tentatively planned to open in 2017.

The San Diego Convention Center Corporation (SDCCC) is a non-profit public benefit corporation created by the City to manage and operate the Convention Center. A seven-member Board of Directors (Board) comprised of business and community leaders establishes policy for the SDCCC.

The mission of SDCCC is to "generate significant economic benefits for the greater San Diego region by hosting international and national conventions and trade shows in our world class facility."

At a meeting of the Rules & Economic Development Committee on April 24, 2013, the SDCCC President & CEO reported on the projected economic benefits for the Convention Center in FY 2013 including:

- Economic Impact: $1.3 billion
- Direct Attendee Spending: $572.7 million
- Tax Revenues: $19.5 million
- Hotel Room Nights: 704,000
- Jobs: 12,500
- Number of Events: 115 (74 conventions)

FY 2014 Budget

On March 13, 2013, the SDCCC Board reviewed and approved a budget for FY 2014. This budget and related detail is presented in Volume 1 of the FY 2014 Proposed Budget (pages 218-221).

The total FY 2014 Proposed Budget for the Convention Center is approximately $33.2 million, an increase of approximately $50,000 over the FY 2013 Budget.

Personnel

The FY 2014 Proposed Budget includes 328.52 FTE positions, a net increase of 1.12 FTE positions from the FY 2013 Budget. Of the 328.52 positions, 216.00 are full-time staff and 112.52 are part-time employees. A significant majority of all part-time employees are represented. SDCCC staff indicates that 114.00 of the 216.00 budgeted full-time staff are represented workers and the remaining 102.00 are unrepresented.

Volume I of the FY 2014 Proposed Budget (pages 220-221) shows a 5.12 FTE increase comprised of 1.00 salaried Non-Supervisor position, 3.95 FTE hourly Non-Supervisor positions and .17 FTE Supervisor. This 5.12 FTE position increase is offset by a 4.00 FTE position reduction that includes 1.00 Manager and 3.00 hourly full-time Non-Supervisors for a net increase of 1.12 FTE positions.

Personnel Expense

Personnel expense has been budgeted at $19.6 million, an increase of approximately $357,000 or 1.9% over the FY 2013 Budget.

This increase results from a $408,000 increase in Salaries & Wages and a $17,000 increase Overtime offset by a net reduction in Fringe Benefits of approximately $67,000. Convention Center staff indicates the increase in Salary & Wages and Overtime is attributable to 1) adding part-time hourly positions to support anticipated events in FY 2014 and 2) step increases for full-time represented staff and a budgeted discretionary 3% merit increase for non-represented staff. The discretionary 3% merit increases have been in effect since mid-year FY 2012.

Non-Personnel Expense

Excluding the Depreciation and Deferred Capital & Maintenance line items of the expenditure budget (on page 219 of Volume I of the FY 2014 Proposed Budget), net Non-Personnel Expense increased by approximately $161,000 or 1.8%, from $9.2 million in FY 2013 to $9.3 million in FY 2014. The most significant line item changes include:

General Services: Reduced by approximately $387,000 or 33% in FY 2014. This is primarily explained by the elimination of the ground lease payment for the Convention Center Phase III expansion site.

Repairs & Maintenance: Increased by approximately $145,000 or 8% in FY 2014 primarily to perform work on building infrastructure and HVAC systems.

Utilities: Projected increase of $378,000 or 15% in FY 2014 attributable to expected usage and rates.

Revenue

Budgeted revenue for the Convention Center in FY 2014 increases by approximately $50,000 or .2% over the FY 2013 Budget. The most significant revenue line item changes include:

Building Rent: Net decrease of approximately $93,000 or 1%, primarily due to an increase in rent credits used to book convention or trade show events.

Food & Beverage: Increase of approximately $702,000 attributable to an expected increase in commissions from catered food & beverage services for convention and trade show events.

Ancillary Services: This line item is the sum of Event, Utility, Telecommunications, and Audio & Visual services projected to be provided in the support of events at the facility. There is a net reduction of approximately $379,000 in FY 2014 due primarily to a decrease in parking revenues from the temporary parking lot at the Phase III Expansion site.

Interest & Other: A decrease of approximately $179,000 in FY 2014 to remove the one-time occurrence of a rebate for a energy efficient project in the FY 2013 Budget.

Deferred Capital & Maintenance

Deferred Capital & Maintenance expense is projected to be approximately $2.3 million in the FY 2014 Proposed Budget (page 219 of Volume I). However, this line item more accurately represents the extent to which total projected revenues exceed total project operating expenses. If realized as projected, all or a portion of this line item could be used for deferred capital & maintenance projects or alternatively be used for other SDCCC purposes.

Depreciation

Under full accrual accounting, capital assets are depreciated and a pro-rata share of depreciation expense in included in the annual income statement. Volume I of the FY 2014 Proposed Budget shows this expense on page 219; however, it is important to note that this is a non-cash expense which ultimately contributes to net resources available to address other SDCCC needs.

Issues to Consider

Operating Reserves

Historically, SDCCC maintained operating reserves in accordance with industry best practices. SDCCC's reserve fund peaked in FY 2008 at just over $8 million. The previous administration requested SDCCC staff expend most of their operating reserve to fund preliminary and essential Phase III Convention Center Expansion activities.

SDCCC staff has informed the IBA that a few examples of these activities included: rights to purchase the expansion site ($1 million), expansion feasibility analysis ($1.4 million), entitlement and design consultants ($1.1 million) and other significant expenses to preliminarily assess and advance the proposed Convention Center Expansion project.

Financial security provided by maintaining an operating reserve better enabled SDCCC to manage unanticipated financial fluctuations. Additionally, the reserve provided adequate funds to maintain and replace necessary furniture, fixtures and equipment as the building aged. Unfortunately, SDCCC has not had an operating reserve fund since FY 2011.

The IBA recommends the City Council direct the SDCCC Board and President & CEO to develop a plan to begin reestablishing an operating reserve. We understand that resources to reestablish a reserve will necessarily compete with the need to address deferred capital maintenance and equipment needs (discussed below); however, we believe it is critical that there be a balanced incremental approach toward achieving both of these important objectives.

Deferred Capital Maintenance & Equipment Needs

Convention Center staff has provided the IBA with a list of deferred capital maintenance and equipment needs totaling approximately $31.1 million. The list is comprised of the following three categories of need:

- Phase III Expansion Consistency Upgrades to the Existing Building ($6.1 million). These capital items are needed to ensure that the existing structure adequately conforms with the expanded facility (fire/life safety, building compliance with ADA standards, carpet replacement, etc.).
- Sails Pavilion Needs ($15 million) Approximately $11.3 million to replace the fabric structure throughout the Sails Pavilion.
- Other Capital Needs ($10 million) This category represents all capital maintenance & equipment excluding Phase III Expansion Consistency Upgrades and Sails Pavilion Needs.

In coordination with the Budget Committee of the SDCCC Board, SDCCC staff has developed and maintained a rolling 5-year budget plan for the capital maintenance and equipment backlog; however, there are insufficient budget resources to adequately address the projects in the 5-year budget plan. The amounts below have been expended on deferred capital maintenance and equipment needs in recent years; yet a significant backlog remains to be addressed.

- FY 2012: $2.3 million (actual)
- FY 2013: $1.7 million (estimate)
- FY 2014: $3.0 million (planned)

SDCCC's mission statement indentifies the Convention Center as a world class facility that generates significant economic benefits for the greater San Diego region by hosting international and national conventions and trade shows. It is critical that SDCCC works with the City to ensure the facility is property maintained in order to achieve their mission.

The IBA recommends the City Council direct the SDCCC Board and President & CEO to work independently, and then with City staff, to develop an implementable five-year plan of finance to begin to address the $31.1 million backlog of deferred capital maintenance and equipment needs. Deferred capital maintenance and equipment items should be carefully re-evaluated to ensure that only the most critical needs are identified and prioritized.

Sources of revenue that might be considered to begin to address the $31.1 million backlog might include Phase III Expansion bond proceeds, increased Convention Center service fees, other new facility revenues, or a reduction in annual operating expenses.

Annual Subsidy from the City

The City provides SDCCC with an annual subsidy of approximately $3.4 million (shown on page 128 of Volume II of the FY 2014 Proposed Budget). The annual subsidy has been higher in previous fiscal years.

SDCCC staff indicates this payment is used to cover the long-term marking agreement with the Tourism Authority ($1.9 million) and otherwise address deferred capital needs of the facility ($1.5 million).

In recent years, some have suggested SDCCC work to reduce their reliance on the annual subsidy from the City. Given the critical need to use all available funds to begin to reestablish an operating reserve and reduce the significant deferred maintenance backlog for this important public facility, the IBA recommends the City maintain the annual subsidy to SDCCC at its current level.

San Diego Data Processing

On May 14, 2012 and June 25, 2012 the City Council approved changes to the City's vendors that provide IT services. As a result, FY 2013 served as a transition year in which the City was in the process of transferring its various IT services that were historically provided by SDDPC to the three new vendors, Atos IT Solutions & Services, Inc. (Atos), CGI Technologies & Solutions, Inc. (CGI) and Xerox State & Local Solutions, Inc. (Xerox).

Effective July 2013 (FY 2014) all of the IT services are expected to be transferred to the new vendors. Additionally, the City has cancelled its contract with SDDPC, also effective FY 2014, to reflect the transition to new vendors.

Significant Operating Budget Adjustments

The preliminary budget shown for SDDPC in Volume 1 of the Mayor's FY 2014 Proposed Budget had not been reviewed by its Board of Directors at the time of publication. A revised budget was presented to and approved by SDDPC's Board of Directors on May 2, 2013. The chart below reflects the difference between the budget shown in Volume 1 and the revised budget approved by the Board of Directors.

The revised budget is approximately $1.9 million and includes 13 positions to provide for core staff through December 2013 to perform dissolution activities and completion of final audits. This is significantly less

FY 2014 Proposed Budget for SDDPC

	Originally Submitted & Shown in Volume 1	Revised & Approved by Board of Directors May 2, 2013	*Difference*
POSITIONS	13	13	0
EXPENDITURES			
Operating Expenses			
Personnel Expense	$ 646,466	$ 646,466	$ -
Non-Personnel Expense	1,269,720	1,269,720	-
Procured Services	-	-	
Capital Expenditures	-	-	
TOTAL EXPENDITURES	$ 1,916,186	$ 1,916,186	$ -
REVENUES			
City of San Diego	$ 1,916,186	$ -	$ (1,916,186)
SDCERS	-	-	-
ARJIS	-	-	-
County of San Diego	-	-	-
All Other	-	119,184*	119,184
TOTAL REVENUE	$ 1,916,186	$ 119,184	$ (1,797,002)

**Revenue based on rent received from lease of 3 suites to Karl Strauss at $19,864/month for 6 months (July 2013 - December 2013)* (an approximate $14.2 million or 88% decrease) than the FY 2013 adopted budget for SDDPC when they were still providing some services to the City and conducting transition activities. The $1.9 million in expenditures included in SDDPC's approved budget for FY 2014 are expected to be funded from existing retained earnings.

The FY 2014 revised budget for SDDPC also eliminates revenues from the City of San Diego, consistent with the cancellation of the City's contract with SDDPC for FY 2014. The City will not require further IT services from SDDPC once the full transition is complete to the new vendors which is expected to occur by July 2013.

Dissolution

On May 2, 2013 SDDPC's Board of Directors voted to dissolve the corporation. This action is expected to be docketed at an upcoming City Council meeting in May or June of 2013. A dissolution subcommittee of SDDPC's Board of Directors will oversee the corporation's wrap-up activities as the entity is dissolved.

As discussed in IBA Report #13-19 IBA Review of the FY 2014 Proposed Budget, SDDPC's assets will revert to the City upon dissolution. For more information on the IT transition, SDDPC dissolution and estimated assets refer to IBA Report #13-19 in the Department of Information Technology section, pages 113-116.

San Diego Housing Commission

The FY 2014 Proposed Operating Budget for the San Diego Housing Commission (SDHC) was approved by the San Diego Housing Commission Board on April 12, 2013. The Proposed Budget is scheduled to be heard at the May 9th Budget Review Meeting of the City Council.

FY 2014 Proposed Adjustments

The FY 2014 Proposed Operating Budget for the San Diego Housing Commission is $304.3 million, reflecting a decrease of $26.0 million, or 8%, from the FY 2013 Budget. The FY 2014 Proposed Budget also includes a $19.2 million Capital Budget. The Housing Commission has an activity-based budget comprised of four primary activity groups funded through a variety of restricted and unrestricted revenue sources. The primary activity groups are Rental Assistance; Real Estate; Housing Innovations; Operations, and Reserves. The FY 2014 Budget reflects modifications from previous year budgets to demonstrate Generally Accepted Accounting Principles (GAAP) best practices.

Funding Sources

The FY 2014 Proposed Budget for the San Diego Housing Commission includes total operating revenues of $304.3 million, including $220.1 million in new revenues and $84.2 million in carryover funds, reflecting an increase of $1.2 million and a decrease of $27.2 million respectively, for a total decrease of $26.0 million, or 8%. Carryover funds represent revenues that were received in prior years but not expended or obligated, while new revenues reflect funding that is anticipated to be received and expended in FY 2014. $292.0 million or 96.0% of SDHC revenues in FY 2014 are from restricted sources, including Section 8 rental assistance, HOME funds, and State funds. The remaining 4.0%, or $12.3 million, are unrestricted revenue sources that includes bond administrative fees and ground lease revenue.

The 8% decline in FY 2014 proposed revenue is particularly related to the following program funding reductions:

- $11.8 million in Section 8/Moving to Work primarily due to a $9.4 million

HOUSING COMMISSION BUDGET SUMMARY BY ACTIVITY

	FY 2013 CURRENT	FY 2014 PROPOSED	CHANGE
Rental Assistance	$ 179,564,112	$ 161,583,596	$ (17,980,516)
Real Estate	87,176,295	70,644,725	(16,531,570)
Housing Innovations	11,591,812	7,900,517	(3,691,295)
Operations	14,186,294	14,197,576	11,282
Prgm., Contin. & Unoblig. Reserves	37,711,769	49,932,599	12,220,830
	$ 330,230,282	**$ 304,259,013**	**$ (25,971,269)**

decrease in the use of carryover funding and a $2.4 million decrease in Section 8 funding.

- $9.3 million in Real Estate revenue over FY 2013 due to the use of public housing conversion funds for the development of the Park Crest project in FY 2013.
- $6.2 million in unrestricted revenue due to the reduced use of carryover funds and the removal of revenue budgeted from a loan for the State Sites in FY 2013.
- $5.1 million in Affordable Housing Fund revenue, with the reduction in the use of carryover funding.
- $617,738 with an anticipated reduction in CALHOME funds.

These revenue decreases were accompanied by increases in the following areas:

- $5.6 million in HOME funds with the draw down of awarded funds that had not been drawn down in the previous year.
- $739,491 in Housing Innovations funding anticipated with an application for additional funding.
- $625,199 in redevelopment Successor Agency funding primarily due to the use of carryover funding.
- 457,064 in CDBG funding, with an increase in the funding award.
- $319,102 in lead rehabilitation funding with an application for additional funding.

During the development of the FY 2014 Budget, the specific impacts of sequestration

HOUSING COMMISSION FUNDING SOURCES

	FY 2013 CURRENT	FY 2014 PROPOSED	CHANGE
Federal	**$ 222,471,535**	**$ 217,713,655**	**$ (4,757,880)**
Section 8/MTW	207,933,330	196,098,384	*(11,834,946)*
HOME	5,581,562	11,214,400	*5,632,838*
Housing Innovation	3,550,368	4,289,859	*739,491*
Rehabilitation	2,751,976	3,071,078	*319,102*
CDBG	*2,469,564*	*2,926,628*	*457,064*
Other	*184,735*	*113,306*	*(71,429)*
Local	**$ 105,008,986**	**$ 84,413,336**	**(20,595,650)**
SDHC Real Estate	62,524,482	53,198,580	*(9,325,902)*
Unrestricted	18,437,374	12,259,634	*(6,177,740)*
RDA	604,280	1,229,479	*625,199*
AHF	*21,583,546*	*16,479,811*	*(5,103,735)*
Other	*1,859,304*	*1,245,832*	*(613,472)*
State	**$ 2,749,761**	**$ 2,132,023**	**(617,738)**
	$ 330,230,282	**$ 304,259,014**	**$ (25,971,268)**

on Housing Commission funding was unknown. To the best of its ability the Commission integrated anticipated reductions in funding for specific programmatic areas and have attempted to mitigate reductions through the use of carryover funding from prior years, and/or, in the case of Section 8/ Moving to Work funds, have a plan in place to use monies that would otherwise be allocated for Moving to Work development expenses to support continued service for its current Section 8 clientele.

The use of carryover and reserve funding to offset funding reductions will deplete these resources over time if funding reductions continue, which would result in actual program reductions.

Budget by Funding Uses

The FY 2014 Proposed Budget includes 266.00 FTE positions, remaining unchanged from the FY 2013 Budget. Total personnel expenditures are budgeted at $24.9 million, an increase of $1.1 million from the FY 2013 Budget. $939,752 of this increase is due to a proposed 3% COLA and Performance Incentive costs, with the remaining being related to position transfers, reclassifications, and salary changes. The Housing Commission has expressed that the COLA increase is necessary to improve salary levels that are currently below market averages. Current program funding will support the increases.

Non-personnel expenditures for Services and Supplies are budgeted at $12.1 million, an increase of $347,198. This is net of a reduction in consulting services, including those related to the Yardi System implementation, that is offset by a reclassification of Smart Corner property expenses from the Housing Programs category.

Housing Programs are budgeted at $198.0 million, a reduction of $16.8 million over FY 2013. This reduction reflects a modification in the how the budget is reported in FY 2014 in accordance with GAAP. The Proposed Budget reflects the actual anticipated expenditures for the fiscal year, and not the awarded amounts. In previous years, awarded amounts were presented as a current year budgeted amount as well. These awarded, but unused funds are now appropriately reflected in the Reserves Budget category.

Capital expenditures are budgeted at $19.2 million, an decrease of $22.7 million from FY 2013. The Capital Budget reflects all capital expenditures associated with the

HOUSING COMMISSION BUDGET SUMMARY BY FUNDING USES

ACTIVITY	FY 2013 CURRENT	FY 2014 PROPOSED	CHANGE
FTE	266.00	266.00	-
Salaries & Benefits	$ 23,881,510	$ 24,931,870	$ 1,050,360
Supplies & Services	11,792,340	12,139,538	347,198
Housing Programs	214,899,222	198,049,983	(16,849,239)
Capital Expenditures	41,945,441	19,205,023	(22,740,418)
Reserves	37,711,769	49,932,600	12,220,831
TOTAL BUDGET	**$ 330,230,282**	**$ 304,259,014**	**$ (25,971,268)**

creation of new affordable housing units, including rehabilitation and tenant improvements, as well as housing development and acquisition, and software and IT equipment. Within the capital expenditures budget, there is a reduction of $3.1 million due to the removal of budget allocated for projects competed in FY 2013, including projects at the Vista Verde, Hotel Sanford, Hotel Churchill, Maya Apartments Courtyard, and Mariner's Village properties. There is also a $2.8 million decrease in capital improvements related to a reduction in budget for the rehabilitation of the State Sites. The State Sites rehabilitation project, approved by the Housing Authority in February 2012, converts 113 affordable housing units developed previously through state funding to public housing, qualifying the properties for needed funding for rehabilitation and operating support. The project was not completed as anticipated in FY 2013. $9.3 million is budgeted in FY 2014 for its completion. An increase of $650,000 is budgeted at all properties relating to ADA and energy conservation projects.

There is a $16.7 million decrease in the Housing Development/Acquisition category of the Capital Budget. This is in part related to $9.6 million reduction in the budgeted use of HUD Moving to Work funds. There is also a $7.5 million reduction of budgeted expense for the Park Crest project with a reduction in the loan funded aspects of the project for completion in FY 2014 from FY 2013. Other reductions totaling $3.2 million relate to the completion of Mariner's Village, Mercado, Hotel Sanford, Courtyard, and Mission projects. $3.5 million in increased funding is budgeted for yet to be determined projects using HOME funds, Property funds, Affordable Housing Funds, and loan proceeds. Decreases in Software and IT equipment expenses totaling $493,000 are primarily related the completion of the implementation stage of the Yardi ERP System in FY 2013.

The FY 2014 Proposed Budget includes $49.9 million in the Reserve category, an increase of $12.2 million from the FY 2013 Current Budget. The increase in budgeted reserves is primarily due to the identification and budgeting of funding previously budgeted as program costs as program reserves. Program Restricted Reserves are proposed to increase by $14.1 million due to this, reflecting an increase in $8.8 million in Section 8 reserves and $5.4 million for other programs.

Property Reserves are proposed to decrease by $2.4 million. This decrease is net of a $3.6 million reduction in loan reserves for the State Site loan that is no longer required in FY 2014, a $698,4000 increase in

FY 2014 CAPITAL BUDGET

ACTIVITY	FY 2013 CURRENT	FY 2014 PROPOSED	CHANGE
Capital Improvements	$ 15,519,603	$ 10,015,521	$ (5,504,082)
Housing Development/Acquisition	25,832,838	9,089,502	(16,743,336)
Software and IT Equipment	593,000	100,000	(493,000)
TOTAL CAPITAL BUDGET	**$ 41,945,441**	**$ 19,205,023**	**$ (22,740,418)**

property replacement reserves, and the addition of $500,000 in contingency funding for the Hotel Churchill property. In regards to the Property Reserves, it is important to note that in FY 2014, the Housing Commission will conduct a Property Needs Assessment (PNA) to examine the sufficiency of the current reserves for Housing Commission properties. The findings from the PNA will inform the appropriate reserve level for each of the Commission's properties moving forward.

The Contingency Reserve budget increases by $484,450 in FY 2014. This is due to an increase in the Unobligated Reserve, budgeted at $7.4 million. The remaining Contingency Reserve is budgeted at $600,000 for litigation and uninsured losses. The Unobligated Reserve is budgeted at 3.0% of the operating budget, representing improvement from 2.2% in FY 2013. In the past, the IBA has advocated for an Unobligated Reserve of 5%. The Housing Commission has expressed a desire to pursue a long-term goal to fund a 5% reserve, with its Reserve Policy requiring a minimum of 2.0%. While the Unobligated Reserve is short of 5% of the operating budget, we acknowledge that the combined reserves are equivalent to 16.4% of the operating budget.

Issues to Consider

City Funding for Homeless Programs

In accordance with the Third Amendment to the City's MOU with the Housing Commission for the administration of homeless programs on the behalf of the City, the Housing Commission received $1.3 million in "off the top" FY 2014 CDBG funding to support the Neil Good Day Center, Veterans Winter Shelter, Cortez Hill Family Shelter, and Connections Housing facility operations. This $1.3 million consists of $205,902 for the Cortez Hill Family Shelter, $562,176 for the Veterans Shelter and Connections Housing, and $550,000 for the Neil Good Day Center. This "off to top" funding creates funding certainty for homeless programs that previously competed directly for funding with other organizations city-wide, which in FY 2013 resulted in the loss of CDBG funding support for the Neil Good Day Center. Due to this, in FY 2013, the General Fund provided $550,000 in funding support to fund Neil Good Day Center operations.

In the FY 2014 Proposed Budget, the Mayor has added $1.3 million to the City of San Diego Economic Development Department to support year-round operations of the Single Adult Homeless Emergency Winter Shelter. This funding will be allocated to

FY 2014 RESERVES BUDGET

ACTIVITY	FY 2013 CURRENT	FY 2014 PROPOSED	CHANGE*
Program Restricted Reserves	$ 7,356,766	$ 21,494,747	$ 14,137,981
Property Reserves	22,867,004	20,465,404	(2,401,600)
Contingency Reserves	7,487,999	7,972,449	484,450
TOTAL CAPITAL BUDGET	**$ 37,711,769**	**$ 49,932,600**	**$ 12,220,831**

the San Diego Housing Commission as the administrator of the City's homeless programs.

With the Proposed Budget, the Homeless Veterans Emergency Winter Shelter will operate from the beginning of December 2013 and end operations in early April 2014. CDBG and Emergency Solutions Grant (ESG) funding has been allocated to support four months of operations for the Veterans Shelter in FY 2014. Extending operations would cost approximately $75,000 per month. Our office is also aware that the Connections Housing year-round permanent interim bed facility may need additional funding to support operations through FY 2014.

Successor Agency of the Former Redevelopment Agency

Redevelopment Dissolution

Per AB 26, enacted on June 28, 2011, California Redevelopment Agencies (RDA) were dissolved on February 1, 2012, and their rights, powers, duties, and obligations were vested in the successor agencies. In January 2012, the City Council designated the City of San Diego to serve as the former RDA's Successor Agency for purposes of winding down its operations; making payments on enforceable obligations; and liquidating the Agency's unencumbered assets for distribution to the County, City, school districts, and other local taxing entities. The City also chose to serve as the Housing Successor Entity and retain the former RDA's affordable housing assets and assume related responsibilities. An additional dissolution law—AB 1484—was passed as a trailer bill to the FY 2013 State Budget on June 27, 2012. AB 1484 took immediate effect and requires successor agencies to learn and implement significant rules of conduct and includes deadlines and severe late penalties.

A large part of winding down activities includes making payments on enforceable obligations of the former RDA. Enforceable obligations are generally defined to include several categories, such as bond obligations and written contracts for specific performance with parties that are not the sponsoring entity, such as the City. Per AB 26, successor agencies are required to prepare

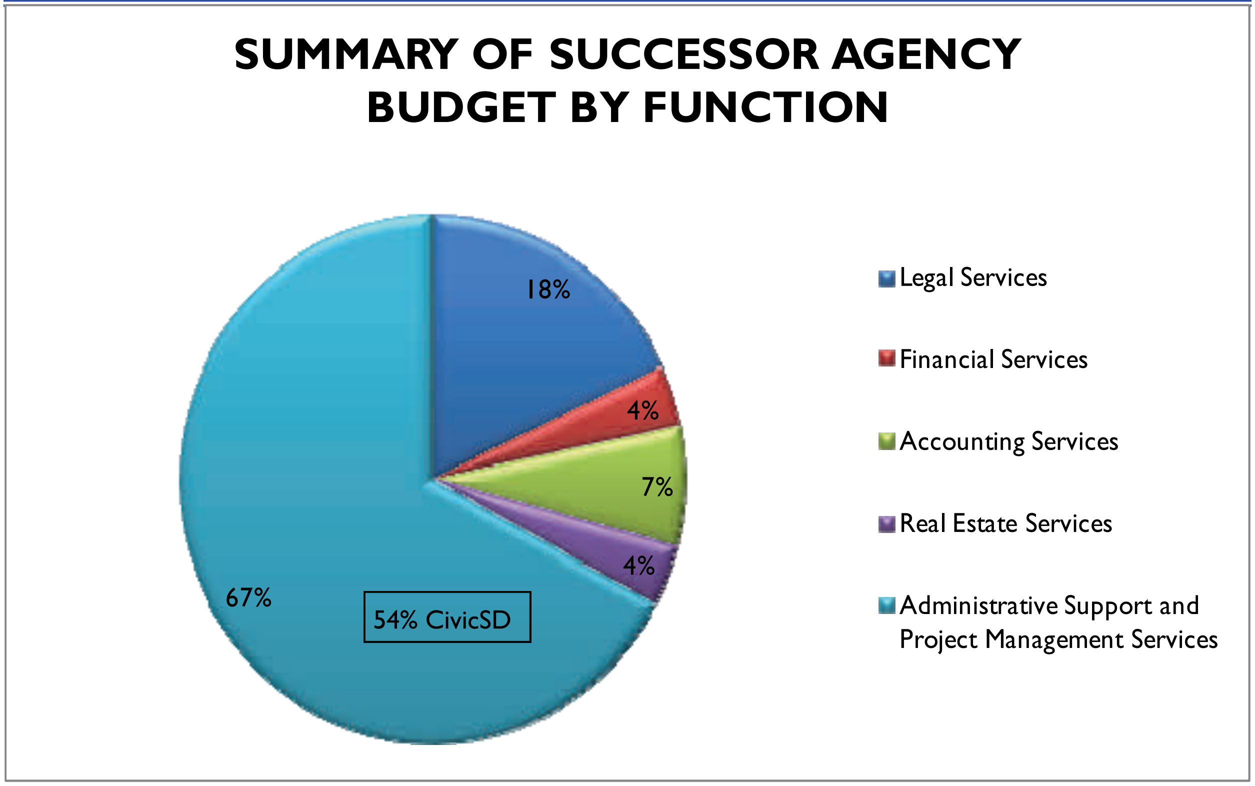
Successor Agency – A separate legal entity from the City, the Successor Agency is responsible for winding down the affairs for the former RDA. The budget is primarily funded with the RPTTF 3% administrative cost allowance.

Successor Housing Entity – The same legal entity as the City, the Successor Housing Entity assumes the affordable housing assets and related responsibilities of the former RDA. Funding for administrative support is derived from the Low- and Moderate-Income Housing Fund.

Recognized Obligation Payment Schedules (ROPS) for enforceable obligations allowed to be made during each applicable six-month period (January 1-June 30 and July 1-December 31) until all obligations are fulfilled. AB 26 includes restrictions on what constitutes an enforceable obligation and each ROPS must be approved by the:

- City Council as the Successor Agency approval body;
- Successor Agency Oversight Board; and
- State Department of Finance (DOF).

Sources of funds for making payments on ROPS include the Redevelopment Property Tax Trust Fund (RPTTF), formerly known as tax increment; bond proceeds; reserve balances; and the housing fund. RPTTF is distributed by the County Auditor and Controller (CAC) in January and June for each related ROPS period. AB 26 also provides



for a limited administrative cost allowance equal to 3% of the Successor Agency's distribution of RPTTF to pay enforceable obligations on each ROPS.

As noted in the section on Redevelopment Dissolution in our office's Review of the FY 2014 Proposed Budget (IBA-13-19), Successor Agency staff are continuing to make notable progress moving forward with dissolution and unwinding activities despite significant and ongoing challenges.

Successor Agency and Housing Successor Entity Staff

Based on its consulting agreement with the City, Civic San Diego (CivicSD)—a nonprofit public benefit corporation—is responsible for assisting with Successor Agency and Housing Successor Entity functions, including administering existing contracts, processing payments, preparing ROPS for each 6-month period, coordinating with the DOF, providing project management, and various other duties as needed for the wind down. In addition to CivicSD, staff from several City departments provide legal, financial and accounting, and administrative services for the Successor Agency to facilitate dissolution and wind down activities, such as the Office of the City Comptroller, City Attorney's Office, and Economic Development Department. The Successor Agency budget is shown on the next page.

FY 2014 Budget

The FY 2014 Successor Agency Budget includes expenditures made as part of ROPS 4 (July 1 – Dec. 21, 2013) and ROPS 5 (January 1 – June 30, 2014). Based on dissolution laws, the Successor Agency's budget includes administrative support and project management costs. The budget for ROPS 4

SUCCESSOR AGENCY FY 2014 BUDGET - ROPS 4 AND ROPS 5	ROPS 4 (July - Dec. 2013)	ROPS 5 (Jan. - June, 2014)	FY 2014 TOTAL
EXPENDITURES			
Legal Services			
City Attorney's Office	$ 500,000	$ 500,000	$ 1,000,000
Outside Legal Counsel	120,000	120,000	240,000
Oversight Board Legal Counsel	50,000	50,000	100,000
Legal Services Subtotal	$ 670,000	$ 670,000	$ 1,340,000
Financial Services			
Debt Management Department	$ 75,000	$ 75,000	$ 150,000
City Treasurer Office	60,000	60,000	120,000
Financial Services Subtotal	$ 135,000	$ 135,000	$ 270,000
Accounting Services (Comptroller's Office)	$ 270,000	$ 270,000	$ 540,000
Real Estate Services (Real Estate Assets)	$ 136,000	$ 136,000	$ 272,000
Administrative Support and Project Management Services			
CivicSD	$ 2,000,000	$ 2,000,000	$ 4,000,000
Economic Development Department	160,251	160,251	320,502
Legislative Clerk	50,000	50,000	100,000
Other Consultants	50,000	50,000	100,000
General Government Service	160,000	160,000	320,000
Contingency	60,500	60,500	121,000
Administrative Support and Project Management Services Subtotal	$ 2,480,751	$ 2,480,751	$ 4,961,502
TOTAL EXPENDITURES	$ 3,691,751	$ 3,691,751	$ 7,383,502
REVENUE			
Administrative Cost Allowance from RPTTF (3%)	$ 1,535,554	$ 900,000	$ 2,435,554
RPTTF Project Management Costs	1,565,188	1,565,188	3,130,376
Other Funding Sources	625,578	1,261,130	1,886,708
TOTAL REVENUE	$ 3,726,320	$ 3,726,318	$ 7,452,638

was approved by the City Council on February 11, 2013. For ROPS 5, the budget will be developed and brought to Council and the Oversight Board for approval in September 2013. To develop the FY 2014 Successor Agency budget, staff used the ROPS 4 budget to project expenditures for ROPS 5.

The FY 2014 Successor Agency Budget totals about $7.4 million. Administrative support and project management services account for about $5 million or 67% of the Successor Agency FY 2014 as shown in the chart on the previous page. CivicSD represents $4 million or 54% of the total budget for the Successor Agency (81% of the administrative services portion of the budget). CivicSD's $4 million portion of the budget includes:

- about $2.1 million for administrative services to support the Successor Agency ($1.6 million) and Housing Successor Entity ($500,000); and
- $1.9 million about for project management.

Note that CivicSD provides other functions in addition to Successor Agency responsibilities; the budget for CivicSD is included in the next section of this report. The remaining $3.4 million or 46% is budgeted for various services provided by City and consulting staff. Legal services make up about $1.3 million or 18% of the budget, including interpreting the dissolution laws and related legislation, negotiating with the DOF and other entities, handling ongoing and pending litigation, and providing legal advice to Successor Agency staff and the City Council as the approval body for the Successor Agency.

Issues for Consideration

Deficiency in Successor Agency Budget

The DOF issued its revised final determination on ROPS 3 for the period January 1 through June 30, 2013, on December 27, 2012. Due to items that were disallowed by the DOF, the administrative cost allowance— which is calculated as 3% of the Successor Agency's distribution of RPTTF— was reduced by about $1.64 million. The Successor Agency sought immediate injunctive relief with respect to the funding shortfall, but this was denied by the court.

The Successor Agency could seek approval from Council likely in May 2013 for a loan from the City's General Fund for up to $1.64 million to cover this deficiency. Note that staff have indicated that, based on recent calculations, the funding shortfall is substantially less.

The Successor Agency could seek approval from Council in May 2013 for a loan from the City's General Fund for up to $1.64 million to cover this deficiency. If the deficiency is not addressed, it will have an impact on the Successor Agency's budget, including both CivicSD and City staff. About $28.5 million has been set aside in the General Fund reserve to mitigate this and other impacts to the General Fund as a result of Redevelopment Dissolution.

The City can seek recovery of the loan repayment by including it on ROPS 5 (January 1-June 30, 2014), although there is no guarantee that the Oversight Board and DOF will approve this repayment as an enforceable obligation. If approved, the loan would be repaid with the next allocation of RPTTF in January 2014. This loan would not have an impact on reserve funds needed for the $28 million Clawback given the timing. Based on the timeframes for which the State Controller is conducting its audits, the Clawback would likely include two payments:

- ***For payments made January1, 2011-January 31, 2012*** - $14.2 million likely to be clawed back by the end of CY 2013 ($11.3 million for Petco Park, $2 million for Convention Center, and $867,407 for general/startup debt); and
- ***For payments made after February 1,***

2012 **-** $13.8 million likely to be made in FY 2014 ($11.3 million for Petco and $2.5 million for Convention Center).

Note that the Clawback and other potential risks to the General Fund are discussed in detail in the Redevelopment Dissolution section of our office's Review of the FY 2014 Proposed Budget (IBA-13-19).

The ROPS 4 budget does not have a deficiency and Successor Agency staff do not anticipate having deficiencies of this magnitude on future ROPS. Previously, a large portion of obligations were paid from the reserve balances of the housing and non-housing funds of the former RDA, so the amount of enforceable obligations paid from RPTTF and consequently the cost allowance was smaller. However, the two required Due Diligence Reviews (DDR)—one for housing and one for the non-housing fund—will extract all excess reserves and RPTTF will be the primary funding source for paying enforceable obligations which will increase the administrative cost allowance. Note that this was the case with the DOF's initial response on ROPS 4 which the Successor Agency received on April 15, 2013. The increase in RPTTF distributions to the Successor Agency will result in an increase of about $140,000 in the 3% administrative cost allowance for ROPS 4.

It is also important to note that the issue of the 3% cost allowance may be resolved through ongoing litigation or potential future clean-up legislation.

Successor Agency Budget Should Decrease as Affairs of Former RDA Wind Down

It is important that CivicSD and City Departments are continuing to assess and "right size" their portions of the Successor Agency budget as the wind down of the former RDA's affair moves forward. Financial Management staff indicated that they would be looking into this in future budgets.

Note that while the level of staffing work for the Successor Agency should gradually diminish over time, the level of staffing work for the Successor Housing Entity (not part of the Successor Agency's budget) will increase over the next several years as the Entity facilitates new affordable housing projects and implements the objectives set forth in the Affordable Housing Master Plan.

Civic San Diego

As a result of the dissolution of California Redevelopment Agencies (RDA) on February 1, 2012, the Centre City Development Corporation (CCDC) was renamed and transitioned into a non-profit public benefit corporation—Civic San Diego (CivicSD)—in June 2012. The Southeastern Economic Development Corporation (SEDC) initially became a subsidiary corporation of Civic SD; the two corporations were ultimately merged in early 2013.

CivicSD assists the City in its role as the Successor Agency and Successor Housing Entity for purposes of winding down the former RDA's operations; making payments on enforceable obligations; and liquidating the Agency's unencumbered assets for distribution to the County, City, school districts, and other local taxing entities. CivicSD's responsibilities also include the merged functions of the former corporations, including planning and permitting for Downtown and managing the Downtown Parking District. Finally, CivicSD seek grants and other new revenue sources to provide opportunities for economic development Citywide and provides other services, such as project management for the Downtown Public Restroom project, known as the Portland Loos.

Each of CivicSD's functions includes a related source of revenue. Note that the City's General Fund provides some funds for economic development activities.

FY 2014 Budget

CivicSD's FY 2014 Budget was approved by its Board of Directors on March 27, 2013. Note that budget submissions were due to the Financial Management Department on March 1, and there were subsequently some minor adjustments to CivicSD's budget. Once the budget has been approved by the City Council, it will be reflected in the City's FY 2014 Adopted Budget.

CivicSD's FY 2014 Budget is about $6.1 million, a 0.5% or $30,000 increase in expendi-

SUMMARY - CIVICSD BUDGET CHANGES	FTE	PE	NPE	TOTAL	REVENUE
FY 2013 Budget	32.00	$ 3,980,000	$ 2,085,000	$ 6,065,000	$ 6,065,000
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Successor Agency Administrative Support Budget	10.56	$ 1,250,504	$ 377,023	$ 1,627,527	$ 1,627,527
Housing Successor Entity Administrative Budget	2.89	376345	$ 103,085	$ 479,430	$ 479,430
Enforceable Obligations and Project Management	7.62	$ 1,029,494	$ 916,874	$ 1,946,368	$ 1,946,367
Permit and Planning	5.77	$ 637,377	$ 361,812	$ 999,189	$ 999,189
Parking District Administration	2.28	268,056	135,301	403,357	403,357
Economic Development and New Market Tax Credit	1.56	236,542	132,574	369,116	369,116
Other Functions	1.32	181,681	88,332	270,013	270,013
Mayor's Fiscal Year 2014 Proposed Budget	32.00	$ 3,980,000	$ 2,115,000	$ 6,095,000	$ 6,095,000
Difference from FY 2013 to FY2014	-	$ -	$ *30,000*	$ *30,000*	$ *30,000*

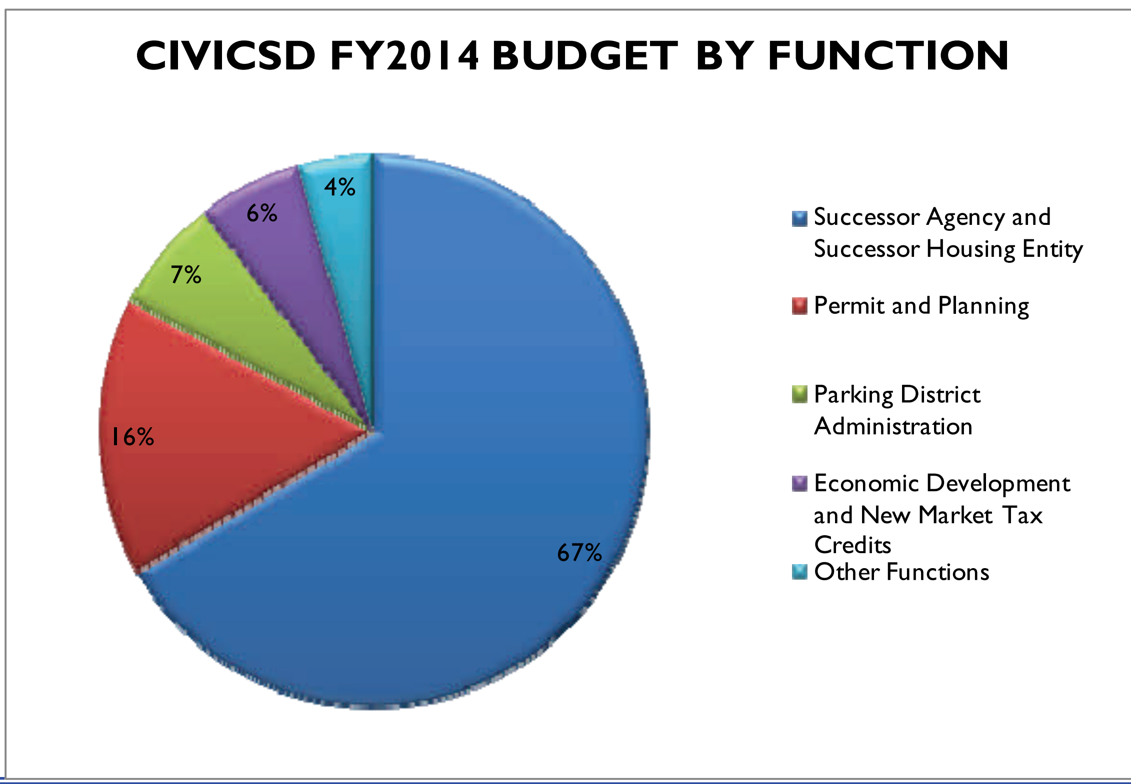
tures over FY 2013. Note that anticipated revenues are about $5.9 million, $150,000 less than programmed expenditures. This deficiency is in the budgeted expenditures for economic development, but is anticipated to be recouped through fees earned through the New Market Tax Credit (NMTC) Program during 2013.

Budgeted positions and personnel expenses remained the same as FY 2013—32.00 FTEs, $2.8 million in salaries and wages and $1.18 for fringe benefits and taxes. Note that a Mid-Year adjustment may be needed to increase CivicSD staffing levels based on a potentially increasing workload. For example additional staff time may be required to manage the NMTC Program. CivicSD will be awarded a $35 million allocation of NMTCs during 2013. Additional staff time could also be needed if Council expands the responsibilities of CivicSD to developing mini plans in areas outside of downtown.

Non-personnel expenses have increased by 1.4% or about $30,000 over FY 2013 largely due to increases in expenditures for rent, insurance, and professional consulting services. Rent increases of $32,000 include the buy out and cancellation of a lease agreement with Westfield Horton Plaza for the Downtown Information Center (DIC). Increases in professional consulting services are related to the need for additional audits and tax services associated with the NMTC Program. These increases are offset by reductions in leasehold improvements, postage, and advertising/recruiting.

Budget by Function

CivicSD's budget by function is shown in the chart below. About 67% or $4.05 million of CivicSD's FY 2014 Budget is for supporting the Successor Agency and Successor Housing Entity compared with about 76% in FY 2013. In addition, Economic De-



CIVICSD'S SUCCESSOR AGENCY AND HOUSING SUCCESS AGENCY BUDGETS				
	FY2013	FY 2014	$ CHANGE	% CHANGE
Successor Agency				
Administrative Support	$ 2,535,900	$ 1,627,527	$ (908,373)	-35.8%
Project Management	1,809,140	1,946,368	137,228	7.6%
Successor Agency Subtotal	$ 4,345,040	$ 3,573,895	$ (771,145)	-17.7%
Housing Successor Entity	$ 146,366	$ 479,430	$ 333,064	227.6%
Total Successor Agency and Housing Successor Entity	$ 4,491,406	$ 4,053,325	$ (438,081)	-9.8%

velopment has increased as a portion of the budget from about 1% in FY 2013 to 6% in the FY 2014 budget. In FY 2013, CivicSD was budgeted $250,000 from the City's General Fund for conducting economic development activities, including seeking new funding sources for targeted improvement projects in former redevelopment neighborhoods. Thus far, CivicSD has spent $188,000 of the total funds which has resulted in a $35 million in allocation of NMTCs during 2013. In addition, CivicSD is likely to receive about $1.9 million in SANDAG grants. These and other planned economic development ventures are the reason for the increase in this category.

Successor Agency and Housing Successor Entity Budget

Based on its consulting agreement with the City, CivicSD is responsible for assisting with Successor Agency functions, including administering existing contracts, processing payments, preparing a Recognized Obligation Payment Schedule (ROPS) for each 6-month period, coordinating with the State Department of Finance (DOF), providing project management, and various other duties as needed for the wind down.

The FY 2014 Successor Agency Budget includes expenditures made as part of ROPS 4 (July 1 – Dec. 31, 2013) and ROPS 5 (January 1 – June 30, 2014). The Successor Agency budget for ROPS 4 was approved by Council on February 11, 2013. The budget for ROPS 5 will be developed and brought to Council and the Oversight Board for approval in September 2013. To develop the FY 2014 Successor Agency budget, staff based projections for ROPS 5 budget on ROPS 4.

As discussed in the previous section of this report, the FY 2014 Successor Agency Budget totals about $7.4 million. CivicSD's portion is about $4.05 million or 54% for administrative support and project management services. The remaining $3.4 million or 46% is budgeted for various services provided by City staff who assist in the wind down functions, including legal, financial, accounting, and real estate services.

CIVICSD'S SUCCESSOR AGENCY AND HOUSING SUCCESS AGENCY POSITIONS				
	FY2013	FY 2014	$ CHANGE	% CHANGE
Successor Agency Administrative Support	14.18	10.56	(3.62)	-25.5%
Housing Successor Entity	0.70	2.89	2.19	312.9%
Enforceable Obligations and Project Management	9.00	7.62	(1.38)	-15.3%
Total	23.88	21.07	(2.81)	-11.8%

SUMMARY OF CHANGES IN BUDGET FOR NON-SUCCESSOR AGENCY FUNCTIONS				
	FY2013	FY 2014	$ CHANGE	% CHANGE
Permit and Planning	$ 965,684	$ 999,189	$ 33,505	3.5%
Parking District Administration	357,910	403,357	45,447	12.7%
Economic Development and New Market Tax Credits	250,000	369,116	119,116	47.6%
Other Functions	-	270,013	270,013	100.0%
Total Expenditures	**$ 1,573,594**	**$ 2,041,675**	**$ 468,081**	**29.7%**

CivicSD's budget for the Successor Agency and Housing Successor Entity includes 21.07 FTEs. This represents an overall decrease of $438,000 or 9.8% and 2.81 or 11.8% in FTEs over FY 2013, primarily due to:

- a reduction of 3.62 FTES and related personnel and non-personnel expenses for Successor Agency administrative support to more accurately reflect actual staff time programmed for this function; and
- an increase of 2.19 FTES and related personnel and non-personnel expenses for Housing Successor Entity administration also to more accurately reflect actual staff time spent on this function.

Permitting and Planning Budget

Although CCDC conducted planning and permitting functions for downtown since 1992, these activities were previously funded as part of downtown redevelopment activities and through tax increment. To fund these activities post-redevelopment, the City Council approved an application fee schedule for the Downtown Community Plan area in May 2012 which became effective July 1, 2012. The fee schedule enables CivicSD to recover costs associated with providing the development review functions for the City. As shown in the table above, FY 2014 anticipated revenue and expenditures for permitting and plan review are about $1 million, a $33,505 or 3.5% increase over FY 2014. Positions in this category have increased from 5.35 FTEs in FY 2013 to 5.77 FTEs in FY 2014.

Downtown Parking District Administration Function

Since 1997, the Corporation has had a Memorandum of Understanding with the City to act as the Downtown Community Parking Advisory Board (DCPD) to invest in a manage public parking assets. Community Parking District Policy (Council Policy 100-18) governs the activities of the DCPD. Goals are to increase the supply and manage the existing supply of public parking, calm traffic, reduce congestion, and provide pedestrian safety improvements.

CivicSD's expenditures associated with this function will be reimbursed by the City through the DCPD budget which is based on parking meter revenue. For FY 2014, revenue and expenditures are budgeted at $403,357, an increase of $45,447 or about 13% over the previous fiscal year. This is largely due to an increase in FTEs to support this function.

Economic Development Budget and New Market Tax Credits

CivicSD has a consulting agreement with the City to conduct economic development activities within the Downtown and former SEDC areas. In addition, CivicSD is a registered Community Development Entity with the U.S. Treasury Department and is eligible to apply for and receive allocations of NMTCs.

The FY 2014 budget for this function is $369,116, an increase of $119,116 or about 48% over the previous fiscal year. The personnel expenses have increased as additional staff time has been programmed for implementation of the NMTC program. Note that CivicSD is receiving a $35 million allocation during 2013.

The FY 2014 Proposed Budget includes $250,000 in the Economic Development Department to support this function, but is about $120,000 short of funding needed. CivicSD staff indicated that expenses associated with this function will be reimbursed by fees earned through New Market Tax Credit allocations, anticipated to be $1.2 million for the 2013 allocation. However, these fees are not earned until the deals have been completed which may cause a cash flow issue, depending on when deals are closed.

Other Functions

CivicSD's FY 2014 budget includes $270,013 to provide services on special projects assigned by the City under its consulting agreement or projects funded through grants or other sources. For example, in FY 2014 CivicSD staff will provide project management for the Downtown Public Restroom projects, also known as the Portland Loos.

Issues for Consideration

Deficiency in Successor Agency Budget

As discussed in the Successor Agency section of this report, due to items that were disallowed by the DOF on ROPS 3 (January-June 2013), the administrative cost allowance—which is calculated as 3% of the Successor Agency's distribution of RPTTF—was reduced by about $1.64 million. Note that staff have indicated that, based on recent calculations, the funding shortfall is substantially less.

The Successor Agency could seek approval from Council in May 2013 for a loan from the City's General Fund for up to $1.64 million to cover this deficiency. If the deficiency is not addressed, it will have an impact on the Successor Agency's budget, including both CivicSD and City staff. About $28.5 million has been set aside in the General Fund reserve to mitigate this and other impacts to the General Fund as a result of Redevelopment Dissolution.

The City can seek recovery of the loan repayment by including it on ROPS 5 (January 1-June 30, 2014), although there is no guarantee that the Oversight Board and DOF will approve this repayment as an enforceable obligation. If approved, the loan would be repaid with the next allocation of RPTTF in January 2014. This loan would not have an impact on reserve funds needed for the $28 million Clawback given the timing. Based on the timeframes for which the State Controller is conducting its audits, the Clawback would likely include two payments:

- ***For payments made January1, 2011-January 31, 2012*** - $14.2 million likely to be clawed back by the end of CY 2013 ($11.3 million for Petco Park, $2 million for Convention Center, and $867,407 for general/startup debt); and

- ***For payments made after February 1, 2012*** - $13.8 million likely to be made in FY 2014 ($11.3 million for Petco and $2.5 million for Convention Center).

Note that the Clawback and other potential risks to the General Fund are discussed in detail in the Redevelopment Dissolution section of our office's Review of the FY 2014 Proposed Budget (IBA-13-19).

The ROPS 4 budget does not have a deficiency and Successor Agency staff do not anticipate having deficiencies of this magnitude on future ROPS.

Cash Flow Issues

As in the previous fiscal year, CivicSD will request a budgetary advance of $1.3 million, including 50% of all permit-related services ($499,594) and 15% for all non-permit related functions ($764,371). The purpose of the advances is to provide needed cash reserves for cash flow.

In addition, CivicSD may be requesting additional funding or a loan of about $120,000 related to the New Market Tax Credit Program. Fees are not earned on the New Market Tax Credit allocations until the deals are closed. However, staff will need to work on both closing the deals and completing the application for the 2014 allocation. CivicSD staff are also investigating several potential future sources of revenue, including public-private investment funds and applying for grants.

Lisa Byrne

Fiscal & Policy Analyst

Jeff Kawar

Fiscal & Policy Analyst

Melinda A. Nickelberry

Melinda Nickelberry

Fiscal & Policy Analyst

Erin Noel

Fiscal & Policy Analyst

Nicole Nelson

Research Analyst

Andrea Tevlin

Approved: Andrea Tevlin

Independent Budget Analyst