



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of City Agencies FY 2016 Budgets: Civic San Diego and the Successor Agency of the Former Redevelopment Agency

The IBA has reviewed the budgets for Civic San Diego and the Successor Agency of the Former Redevelopment Agency. These budgets are scheduled to be heard Thursday, May 7th, 2015.

A handwritten signature in blue ink, appearing to read "Charles E. Modica, Jr.".

Charles E. Modica, Jr.
Fiscal & Policy Analyst

A handwritten signature in blue ink, appearing to read "Andrea Tevlin".

APPROVED: Andrea Tevlin
Independent Budget Analyst

City Agencies

Civic San Diego/Successor Agency

Civic San Diego (CivicSD) assists the City in its role as the Successor Agency and the Successor Housing Entity for purposes of winding down the former Redevelopment Agency's (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 also provides non-Successor Agency functions, including:

- Providing planning and permitting services for Downtown
- Managing the Downtown Parking District
- Conducting economic development and neighborhood investment activities (including seeking grants and other new revenue sources for these activities)
- Providing other as-needed services to the City

This section of our report provides an overview of budget changes to CivicSD and the City's Successor Agency. A review of

Civic San Diego Background

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.

budget changes for the Housing Successor Agency is included separately.

Civic San Diego

CivicSD develops an annual budget that is incorporated into the City's Budget. CivicSD's FY 2016 Proposed Budget was approved by its Board of Directors on March 25, 2015, and is posted on its website.

As shown below, the FY 2016 Proposed Budget totals \$7.4 million, an increase of 10.1% or \$684,000 over the FY 2015 Adopted Budget. The Proposed Budget in-

SUMMARY OF CIVIC SAN DIEGO BUDGET CHANGES					
Description	FTE	PE	NPE	Total Expense	Revenue
FY 2015 Adopted Budget	35.00	\$ 4,340,000	\$ 2,420,000	\$ 6,760,000	\$ 6,761,637
Programmatic Changes					
<i>Successor Agency Administration & Project Management</i>	1.05	69,468	(207,355)	(137,887)	(55,153)
<i>Housing Successor Agency Administration</i>	1.59	204,549	32,712	237,261	250,485
<i>Planning and Permitting Functions</i>	0.75	97,555	(16,166)	81,389	102,825
<i>Parking District Administration</i>	(0.03)	(11,466)	(39,443)	(50,909)	(34,091)
<i>Economic Development Function</i>	(0.24)	(45,764)	266,916	221,152	-
<i>New Market Tax Credit Functions</i>	1.73	232,291	81,807	314,098	544,098
<i>Deposits/Other Functions</i>	0.15	23,367	(3,471)	19,896	(124,000)
FY 2016 Proposed Budget	40.00	\$ 4,910,000	\$ 2,535,000	\$ 7,445,000	\$ 7,445,801
Difference from 2015 to 2016	5.00	\$ 570,000	\$ 115,000	\$ 685,000	\$ 684,164

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cludes 40.00 FTEs, an increase of 5.00 FTEs from FY 2015.

CivicSD revenues in the FY 2016 Proposed Budget total \$7.4 million, an increase of 11.4% over FY 2015 revenues.

A discussion of significant changes in CivicSD's expenditures and revenues, as well as potential issues to consider, is included below.

Expenditures

The bulk of increases in CivicSD expenditures are increases in personnel expenditures. Personnel expenses in the Proposed Budget total \$4.9 million, which is an increase of \$570,000 over FY 2015.

CivicSD's Proposed Budget adds the following 5.00 FTEs:

- 1.00 Project Manager—Engineer
- 1.00 Project Manager—Neighborhood Services
- 1.00 Communications Manager
- 1.00 Associate Planner
- 1.00 Human Resources Assistant

The Proposed Budget also includes funding for merit-based salary increases. Position salaries at CivicSD have not increased since 2007. In 2015, CivicSD engaged an independent consultant to conduct a survey of salary information for all staff positions. CivicSD proposes to adjust position salary ranges to be commensurate with that survey's findings through merit-based increases.

Non-personnel expenditures in the Proposed Budget total \$2.5 million, which is an increase of \$115,000 over FY 2015 levels.

This increase is primarily attributable to increases in CivicSD's budgets for consultant services, and economic development and outreach, which are offset by savings in rental costs that result from a renegotiated office lease.

Revenues

CivicSD revenues in the Proposed Budget total \$7.4 million, an increase of \$684,000 over FY 2015 levels. Most of this increase is due to a \$544,000 increase in revenue from fees collected from the New Market Tax Credit Fund. CivicSD staff have noted that the New Market Tax Credit program is now self-sufficient, whereas in previous fiscal years the program required additional support from other sources.

Issues to Consider

The Proposed Budget for CivicSD includes \$375,000 in contributions from the City's General Fund to pay for the following items:

- \$125,000 to support development of a Transit Oriented Development (TOD) Investment Fund. This amount was included in the FY 2015 Budget, and is carried over in the FY 2016 Proposed Budget

Civic issued an RFP for an investment fund advisor in November 2014, and initially expected to select a respondent in early 2015. However, due to potential conflicts with respondents, a new selection process may be necessary. **Civic Staff should ensure that Council is apprised of the status of development of the TOD Investment Fund.**

- \$75,000 for adaptive reuse of the former Downtown Main Library to become an active and vibrant neighbor-

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hood center, resulting in increased property value for the City

- \$175,000 to support the pursuit of alternate funding sources.

CivicSD staff also indicate that Mid-Year adjustments may be necessary to increase staffing levels if workload demands increase. **CivicSD staff should inform the City of any necessary adjustment should it become apparent that an adjustment is required.**

We also note that the CivicSD's consulting agreement with the City, along with potential changes, is anticipated to be discussed at the June meeting of the Economic Development and Intergovernmental Relations Committee.

Successor Agency

Background

Per AB 26, enacted on June 28, 2011, California Redevelopment Agencies were dissolved on February 1, 2012. Their rights, duties, and obligations were vested in successor agencies. In January, 2012, the City Council designated the City of San Diego as the former RDA's Successor Agency for the purposes of winding down its operations, making payments on enforceable obligations, and liquidating unencumbered assets.

A large part of wind-down activities involves making payments on enforceable obligations of the former RDA. State law requires successor agencies to prepare Recognized Obligation Payment Schedules (ROPS) that detail each enforceable obligation held by the Successor Agency in a given 6-month wind-down. Each ROPS must be approved by the

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.

State Department of Finance (DOF).

Funding sources for each ROPS item include the Redevelopment Property Tax Trust Fund (RPTTF), which was formerly known as the tax increment, bond proceeds, and other revenue such as rental income.

RPTTF is distributed by the County Auditor and Controller (CAC) in January and June for each related ROPS period. State law also allows administrative cost allowances equal to 3% of the Successor Agency's distribution of RPTTF to pay enforceable obligations on each ROPS.

Dissolution Implementation

The City has a consulting agreement with CivicSD to carry out wind-down functions. This agreement includes:

- Administering existing contracts
- Processing payments
- Preparing a ROPS for each 6-month period
- Coordinating with the DOF
- Providing project management, property management, and other related duties

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As shown on the below, CivicSD accounts for \$3.6 million or 53.6% of the total \$6.7 million FY 2016 Proposed Budget for the Successor Agency.

In addition to CivicSD, staff from several City departments provide legal, financial, accounting, and administrative services for the Successor Agency to facilitate dissolution.

Proposed Budget

The FY 2016 Proposed Budget for the Successor Agency is based on projected expenditures to be made as part of ROPS 8 (July 1—December 31, 2015) and ROPS 9 (January 1—June 30, 2016). It is important

to note that the Successor Agency budget is based on ROPS submissions, which are subject to approval of the State DOF.

ROPS 8 was approved by the City Council on February 2, 2015, and submitted to the State DOF. The State is expected to issue a final determination on May 15th; staff anticipates approval of funding for the vast majority of items that were initially expected to be approved on ROPS 8.

The budget for ROPS 9 will be developed and brought to Council for approval in September 2015. To develop the FY 2016 Successor Agency budget, staff based projections for ROPS 9 on ROPS 8.

FY 2016 SUCCESSOR AGENCY BUDGET (BASED ON ROPS 8 AND ROPS 9)			
	ROPS 8 (July - Dec. 2015)	ROPS 9 (Jan. - June, 2015)	FY 2016 TOTAL
EXPENDITURES			
Legal Services			
<i>City Attorney's Office</i>	305,000	305,000	610,000
<i>Outside Legal Council</i>	145,000	145,000	290,000
<i>Oversight Board Legal Counsel</i>	38,000	38,000	76,000
Financial Services			
<i>Debt Management Department</i>	50,000	73,000	123,000
Accounting Services			
<i>Comptroller's Office</i>	228,000	228,000	456,000
Real Estate Services			
<i>Real Estate Assets Department</i>	136,000	136,000	272,000
Administrative Support Services			
<i>Economic Growth Services Department</i>	150,000	150,000	300,000
<i>Other City Departments</i>	-	305,000	305,000
<i>Civic San Diego</i>	1,785,000	1,785,000	3,570,000
<i>Other Consultants</i>	100,000	100,000	200,000
<i>General Governmental Services</i>	150,000	150,000	300,000
<i>Contingency</i>	50,000	100,000	150,000
<i>Oversight Board Insurance</i>	6,000	-	6,000
Total Expenditures	3,143,000.00	\$ 3,515,000	\$ 6,658,000
FUNDING SOURCES			
<i>Admin Fee (3%)</i>	\$ 1,843,000	\$ 632,808	\$ 2,475,808
<i>RPTTF Distributions</i>	\$ 1,300,000	\$ 1,655,000	\$ 2,955,000
<i>Other Sources</i>	\$ -	\$ 1,227,192	\$ 1,227,192
Total Funding Sources	\$ 3,143,000	\$ 3,515,000	\$ 6,658,000

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The FY 2016 Proposed Budget shown on the previous page is based on a recent assessment provided by CivicSD staff. The budget totals \$6.7 million, which is an increase of \$164,000 over FY 2015 levels.

Revenue in the Proposed Budget also totals \$6.7 million. Primary funding sources for the Successor Agency include \$3.0 million in new RPTTF distributions and \$2.5 million from the 3% administrative allowance. An additional \$1.2 million in other funding sources, such as rental income and bond proceeds, is also included for the second half of the year.

Issues to Consider

As part of a negotiated settlement with the US Department of Housing and Urban Development (HUD), the former RDA had an agreement with the City to repay \$78.8 million in Community Development Block Grant (CDBG) funds over a ten-year period beginning in FY 2010. The payments escalate significantly over the latter half of the agreement.

The DOF has not approved these payments as enforceable obligations on ROPS submitted by the Successor Agency.

On April 10, 2015, HUD sent a letter to the DOF disagreeing with the DOF's determination that CDBG repayments are not enforceable obligations. The letter states that the obligation to make repayments is required by Federal law, and requests the DOF to approve in full all future payments required by the repayment agreement that are submitted in any ROPS. To date, staff is unaware of any response to this letter from the DOF.

Council should receive regular updates on this item throughout the fiscal year, or until the matter is ultimately resolved.