THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Impacts of the Use of Residual Redevelopment Property Tax Trust Funds to Preserve Affordable Housing

OVERVIEW

On June 24, 2020, the Land Use and Housing Committee (Committee) discussed the San Diego Affordable Housing Preservation Study (Preservation Study). The Committee requested follow-up actions to be taken, one of which was for our Office to report back on the impact to the General Fund if residual Redevelopment Property Tax Trust Fund (RPTTF) revenue was used for preservation of affordable housing. This request is in response to Recommendation 2 of the study which is to redirect funds originally associated with the Redevelopment Agency of the City and its dissolution to fund preservation. Specifically, it suggests redirecting a portion of residual distributions from the RPTTF, referred to as “boomerang funds” in the report.

If the Committee wishes to direct all growth beyond the current $29.5 million of residual distributions from the RPTTF to affordable housing preservation, our Office estimates the amount would be between $1.7 million in FY 2022 and $7.1 million in FY 2025. Additional scenarios are provided in this report for illustrative purposes that result in reduced amounts. Any amount redirected would have a corresponding negative impact to the General Fund. Given the current economic climate, we caution diverting these funds. This report also provides a brief background on residual RPTTF funds and a discussion of costs to preserve affordable housing identified in the Preservation Study.

FISCAL/POLICY DISCUSSION

Background on Residual RPTTF Revenue

With the dissolution of redevelopment agencies in 2012, powers of those agencies were vested in successor agencies. Successor agencies are required to fulfill all obligations that former redevelopment agencies had entered into prior to being dissolved and wind down their operations.

Property tax growth in certain areas that would have otherwise gone to redevelopment agencies (RDAs) is now being placed in a county-wide Redevelopment Property Tax Trust Fund (RPTTF).

Each year, the City, as the successor agency, prepares a Recognized Obligation Payment Schedule (ROPS) that details all of the former redevelopment agency's enforceable obligations and payments to be made for the upcoming fiscal year and submits this to the state for approval. Examples of enforceable obligations include repayments of bonds sold to finance a project, costs to manage continuing redevelopment projects, legal settlements, and other agreements. The County administers the RPTTF and remits revenue to successor agencies to fulfill state-approved enforceable obligations and makes other mandatory distributions. Funds remaining in the RPTTF after payments are made for each successor agency's ROPS are returned to local taxing entities. These remaining funds are referred to as residual distributions of RPTTF or "boomerang funds."

The City of San Diego's share of residual RPTTF is approximately 19.6% and is currently included in the City's total property tax distribution from the County. As obligations are gradually fulfilled and paid off, the amount of residual RPTTF that will be proportionally distributed to local taxing entities will increase.

Future Residual RPTTF Projections

For FY 2021, the residual RPTTF distribution is projected to be $29.5 million, all of which is currently budgeted as unrestricted General Fund revenue in the Adopted Budget. As such, this revenue is currently funding the ongoing operations of the City, and any diversion of this revenue source to another purpose within FY 2021 would require a corresponding increase in revenue from another source, or expenditure reductions. However, this revenue source does grow at a similar rate of growth as regular property tax distributions, and growth in future years could be dedicated to a specific purpose such as affordable housing preservation. Our Office has prepared a projection of RPTTF residual distributions for the next four years to provide a projection of the incremental growth in the distributions. This projection assumes that the overall amount of funding deposited to the RPTTF grows at 4.00%, which is the low end for property tax growth in the most recent Five-year Financial Outlook (FY 2021 is currently projected to grow at 4.25%). Further, this projection does not include any substantial decreases in the ROPS projections, as there are not anticipated to be any significant decreases in obligations for the next few years, nor does the projection include any additional funds from the sale of successor agency properties since there

City RPTTF Distributions					
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
RPTTF Residual Distributions	29,539,705	31,200,205	32,932,209	34,733,342	36,606,524
Growth Above FY 2021		1,660,500	3,392,504	5,193,637	7,066,819
50% Growth Above FY 2021		830,250	1,696,252	2,596,818	3,533,410
25% Growth Above FY 2021		415,125	848,126	1,298,409	1,766,705
Total Yearly Growth		1,660,500	1,732,005	1,801,132	1,873,182
50% Yearly Growth		830,250	866,002	900,566	936,591
25% Yearly Growth		415,125	433,001	450,283	468,296

are very few properties expected to be sold in these years, and it is unclear what the City will receive for these properties.

The top line of the table provides the total amount of RPTTF residual distributions that would accrue to the City under our projection. If the Committee wishes to direct all growth beyond the current $29.5 million to preservation, the amount would be between $1.7 million in FY 2022 and $7.1 million in FY 2025. The table also demonstrates the values if the Committee wishes to direct a portion of the growth above FY 2021 to this purpose, as well as a scenario for if the Committee wishes to direct only the yearly growth in RPTTF funds, with the balance going towards the General Fund. Each of these scenarios is provided for illustrative purposes.

The Committee should be aware, however, that each dollar diverted from the RPTTF would increase the General Fund deficit in that year. The most recent Five-year Financial Outlook projected deficits for each fiscal year between FY 2022 and FY 2024. Also, the Outlook was prior to the onset of the COVID-19 pandemic, and included a higher overall forecast for these revenues. Our current forecast, as previously stated, projects each year to grow at 4.00%, which is the low end for property tax growth in the most recent Outlook. Further, it should be noted that many of the restorations and programming contained in the FY 2021 Adopted Budget rely on one-time revenue sources, including federal CARES Act funding and other revenues. While it is too early to project what the next Outlook may project, it is likely that deficits will continue given the continued impact of COVID-19, and possibly worsen.

Projected Costs to Preserve Affordable Housing

The Preservation Study models costs to preserve deed-restricted as well as unrestricted, naturally occurring affordable rental housing (NOAH) units through acquisition and rehabilitation of units that are at risk of becoming unaffordable. For deed-restricted units, this can occur through expiration of affordability restrictions and for NOAH units, this can be caused by increasing rents.

According to the report, since 2000 the San Diego Housing Commission (SDHC) has partnered with developers to preserve 4,200 deed-restricted units and will need to continue this pace using existing programs and fund sources to preserve 4,200 at risk deed-restricted units over the next 20 years. This assumes that resources are not redirected for other priorities in future years and property owners choose to continue deed restrictions. SDHC estimates local costs to continue to preserve an average of 210 deed-restricted units per year to be about $14 million annually for gap financing (additional financing to support development costs after accounting for all other sources that have been secured).

Preserving NOAH units is a new activity for the SDHC. The study identified an average need of about $72 million annually in gap financing to preserve an average of about 460 NOAH units per year. The report states that these costs will need to come from a combination of new state and local funding. The exact share of state and local resources is unknown, but if costs were split equally, the local funding need would be roughly $36 million annually.

CONCLUSION

In reviewing the Preservation Study, the Committee asked our Office to report back on the impact to the General Fund if residual RPTTF revenue was diverted to support costs outlined above to preserve affordable housing. Our Office estimates that diverting all the growth beyond the current $29.5 million of residual distributions from the RPTTF to affordable housing preservation would produce between $1.7 million in FY 2022 and $7.1 million in FY 2025. Additional scenarios are provided as well that result in reduced amounts.

Given the extraordinarily challenging and uncertain fiscal environment that the City is currently experiencing due to COVID-19, we caution any diversion of General Fund revenue at this time. The FY 2021 Adopted Budget uses one-time resources to support core City services and future budget deficit projections may worsen. The Committee could delay consideration of redirecting residual RPTTF funds until the City's revenues begin to recover. In the meantime, focus could be placed on other fund sources that do not have a negative General Fund impact, such as successor agency funds going to the Community Development Block Grant program, as was also recommended in the Preservation Study.

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