OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Redevelopment in San Diego

OVERVIEW

Redevelopment was created by the state to enable local governments to revitalize their communities by eliminating blight. Blighted areas suffer from adverse physical and economical conditions, such as unsafe building conditions, inadequate and obsolete infrastructure, depreciated property values, and vacant land and businesses. Redevelopment is often a partnership between the public and private entities that strive to enhance social, economical, physical and environmental aspects of the City.

> *"While redevelopment agencies are probably the least understood local government entities, they represent the most important tool a community has to help breathe new life into areas in need of revitalization, economic development and new opportunity."*
>
> *-CRA Website*

The following summarizes the steps in the development of a redevelopment project area. First, a survey area is identified and established (via resolution of the legislative body) to conduct a feasibility study of a possible redevelopment project area. The initial designation of the project area boundaries (within the survey area) and a preliminary plan for the redevelopment of the selected project area is performed by the Planning Commission. The Project Area Committee is established to serve as an advisory board to the redevelopment agency. A redevelopment plan is developed and provides a general overview of the goals and policies of the agency for the project area and the proposed redevelopment activities. The redevelopment plan will also include the time limits on incurring indebtedness, the effectiveness of the plan, and repayment of indebtedness. The redevelopment plan and associated reports, including an environmental impact report, and implementation plan to support the development of a

project area are submitted to the legislative body for consideration upon review and approval of the Planning Commission and the Project Area Committee. A joint public hearing is conducted in order for both the redevelopment agency and the legislative body to approve the plan (by ordinance). The ordinance is subject to referendum.

As quoted above, the subject of redevelopment is a complicated process. The objective of this report is to provide a basic understanding of redevelopment; provide statistical information about the City's redevelopment project areas, including comparative data with all redevelopment activities conducted in the County of San Diego and State of California; and review two specific and significant issues: outstanding redevelopment debt to the City and the organization of the redevelopment agency.

FISCAL/POLICY DISCUSSION

Statistical and Comparative Data

Information in this section on statistical and comparative data, unless otherwise noted, has been obtained from the 22nd edition of the Community Redevelopment Agencies Annual Report for the fiscal year ended June 30, 2006 (information for the City of San Diego is unaudited). This report is produced bythe California State Controller and was released on May 10, 2007.

In the State of California, there are 759 redevelopment project areas that cover 1,202,235 acres (or an average of 1,583 acres per project area); in the County of San Diego (as a region) there are a total of 40 redevelopment project areas that cover 48,830 acres (or an average of 1,221 acres per project area); include 17 project areas in the City of San Diego that cover 10,108 acres (or an average of 595 acres per project area). In addition, the City of San Diego has two study areas and the City of San Marcos has a separate consolidated low and moderate income housing fund (which provides the low/mod-housing requirements for all project areas in San Marcos).

Redevelopment was created to eliminate blight and one indicator of this is the increase in tax increment. When a redevelopment project area is created, the property taxes are frozen at that level (base). The project areas share a portion of these future tax increments with local taxing entities either through specific pass through formulas or agreements.

In the State of California, redevelopment project areas generated tax increment of $4.1 billion for the fiscal year ending 6/30/2006, which is 47% of the state's total revenues and other financing sources. Similarly, the percentage of total revenue and other financing sources that is generated by tax increment is 43% for the San Diego county region and 42% for the City of San Diego-Redevelopment. Although the tax increment generated as a portion of total funding sources are similar between the three, the following chart

depicts the vast differences in the average amount of tax increment generated per acre of the project areas for the State, County, and City.

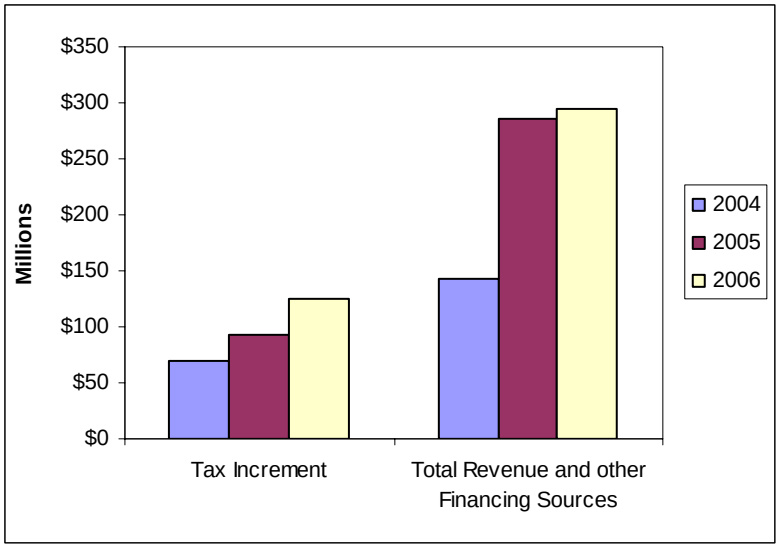
Average Tax Increment per Acre of Project Area		
State of California	1,202,235	$3,374
San Diego County	48,830	$6,671
City of San Diego	10,108	$12,432

The City has significant tax increment generated in the Centre City and Horton Plaza project areas, especially as it relates to its size (for Centre City, the average TI per acre is $57,681 and Horton Plaza is $180,484). If these two areas are excluded from the calculation, the City's average TI per acre ($4,320) is still higher than the State, but the difference is not as significant.

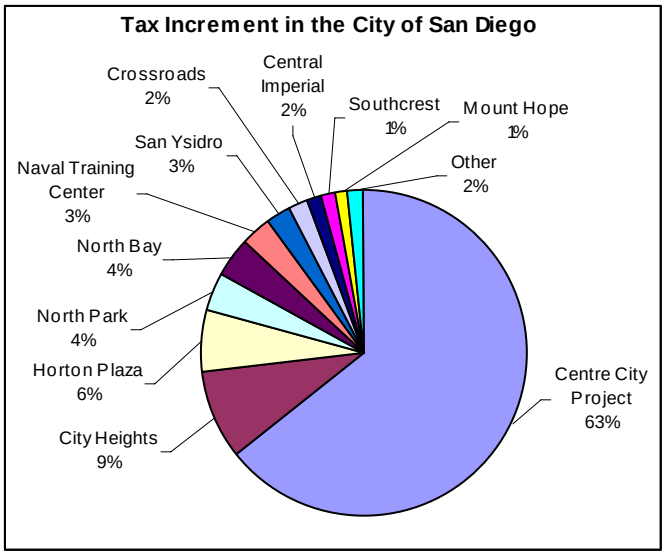
In terms of tax increment generated, the four largest redevelopment project areas in the County are the Centre City project area in the city of San Diego (1,398 acres), Paguay project area in Poway (8,200 acres), Project Area 3 in San Marcos (6,301 acres), and the Escondido project area (3,161). Of the 17 municipalities in the County, eleven municipalities only have one project area, including Poway and Escondido. The County's tax increment for Fiscal Year 2006 was $325.8 million, which reflects a 49% increase in tax increment from Fiscal Year 2004. The chart to the right depicts the percentage increase in tax increment for the three year period starting in FY04 and ending in FY06.

Percentage Increase in Tax Increment from FY04 to FY06	
San Diego City	81%
San Marcos	61%
National City	41%
El Cajon	38%
Other	31%
Coronado	30%
Escondido	29%
Vista	27%
Poway	23%
Chula Vista	1%
Total County	49%

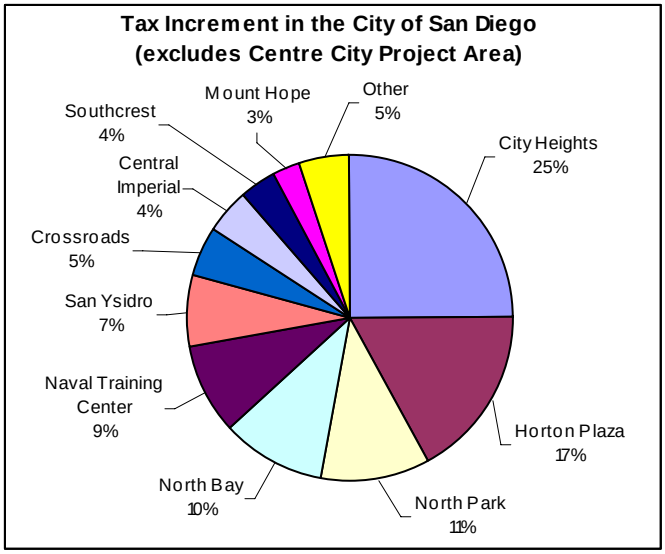
In Fiscal Year 2006, tax increment generated for the City of San Diego was $125.7 million; this represents a 35% increase over the previous fiscal year and an 81% increase since Fiscal Year 2004. The table to the right depicts Tax Increment and Total Revenue for the three year period of FY04-FY06. The most significant increase in Total Revenue has been revenue received from bond proceeds.



The largest project area, in terms of acreage in the City of San Diego, is City Heights (1,984 acres or 19.6% of total acres of redevelopment in San Diego). In terms of tax increment, the largest project area is Centre City. In Fiscal Year 2006, Centre City Project Area recorded $80.6 million in tax increment, which represents approximately 63% of all tax increment in the City of San Diego. The chart to the right depicts the breakdown (by percent) of tax increment by project area in San Diego.



The second pie chart, right, depicts the breakdown of tax increment, if the Centre City project area is removed. The next two largest project areas, in terms of tax increment, are City Heights ($11.3 million) and Horton Plaza ($7.6 million). The Grantville project area (in FY06) has no tax increment, which is to be expected, since this project area was just established in 2005. Project areas included in the "Other" category are College Community, College Grove, Barrio Logan, Gateway Center West, and Linda Vista.



In terms of average tax increment per acreage of project area, Horton Plaza has the largest average, as depicted in the table to the right. As stated previously, if the highest averages (Horton Plaza and Centre City Project) are removed from the calculation, the City's average tax increment per acres would be $4,320.

Project Area	Acreage	Avg TI per acre
Horton Plaza	42	$ 180,484
Centre City Project	1,398	57,681
North Park	555	8,856
Naval Training Center	504	7,752
Linda Vista	12	7,430
Mount Hope	210	6,189
City Heights	1,984	5,704
College Community	131	5,609
Southcrest	301	5,555
Gateway Center West	59	4,777
College Grove	167	4,290
San Ysidro	766	4,271
Central Imperial	485	3,978
North Bay	1,360	3,411
Barrio Logan	133	2,772
Crossroads	1,031	2,232
Grantville	970	-
Total	**10,108**	**$ 12,432**

Outstanding Redevelopment Debt

Over the past 30 years, the City has contributed funds to the Redevelopment Agency through a variety of methods, including General Fund loans, Community Development Block Grant (CDBG) loans, and Section 108 loans for redevelopment plan implementation. All funds provided to the Agency from the City are recorded as interest-bearing debt of the Agency, and the Office of the City Auditor & Comptroller maintains a detailed debt schedule reflecting each loan, its source, and incorporates repayments that have been made, and adds interest to the remaining balances annually. Under California Community Redevelopment Law (CRL), all agencies in the state are required to incur debt in order to legally receive tax increment; an agency can only receive an annual tax increment amount that is no more than the project area's total indebtedness minus its available revenue. This requirement is why it was essential for the City to loan funds to the Agency when project areas were first established; without this debt the project area would have been unable to receive any tax increment to fund redevelopment activities.

The Agency currently has outstanding city loans in several project areas (as depicted in the table to the right, which reflects *unaudited* information). The repayment of these loans may be subordinate to the repayment of bonds or other types of debt, and occasionally no monies are available for repayment of interest or principal. For example, the Agency currently owes money to the General Fund for the Naval Training Center (NTC) project area. However, due to the Third Implementation Agreement to the Disposition and Development Agreement between McMillin-NTC, LLC and the Redevelopment Agency, all discretionary tax increment generated by the Naval Training Center Redevelopment Project Area, until recently, was pledged to the repayment of McMillin for additional City-imposed infrastructure requirements totaling $8.5 million. This obligation was

REDEVELOPMENT AGENCY

City Loan Debt Schedule -- FY 2007

PROJECT AREAS		TOTAL DUE
Barrio Logan		22,985,587
Central Imperial		32,059,287
Centre City:		
Centre City Expansion	8,275,006	
Columbia	9,969,935	
Gaslamp	4,527,975	
Marina	91,786,394	114,559,309
City Heights		15,022,066
College Community		1,548,641
College Grove		68,294
Crossroads		1,080,571
Gateway		19,863,959
Grantville		617,768
Horton Plaza		0.00
Linda Vista		6,216,705
Mt. Hope		4,592,129
NTC		8,041,638
North Bay		-
North Park		3,510,192
San Ysidro		1,660,553
Southcrest		19,583,937
TOTAL DUE - ALL PROJECTS		**251,410,635**

Unaudited Information provided by the City Auditor and Comptroller

recently paid through a line of credit financing. However, previously, funds were unavailable to contribute to other project area needs, or for repayment of this City debt. Similar obligations, to some degree, exist in the College Community, College Grove, North Park and San Ysidro Redevelopment Project Areas. There is also a possibility that a project area may lack enough tax increment to ever fully pay off their loans to the City.

As stated in the table on the previous page, approximately $251.4 million in loans from the City to the Agency is currently outstanding (numbers are unaudited and subsequently may change). Of this, approximately $200 million represents loans from City CDBG and Section 108 funding. Funds received by the City from the repayment of these loans would still be restricted and could only be used for purposes eligible under CDBG guidelines. In some cases, debt has been recorded when the City has contributed Section 108 loans and pledged the City's CDBG monies to pay back the Section 108 loan to HUD. For instance, this occurred when the City partnered with the Agency to build the Mid-City Police Substation in the City Heights project area. For accounting purposes, the pass through of these funds is recorded as a debt, but it is not expected that the Agency will repay these loans. It is recommended that the debt schedule be reviewed and City Council and Redevelopment Agency actions be taken, as needed, to remove these obligations from the debt schedule to provide a more accurate picture of actual debt of the Agency.

The Agency committed to implementing each redevelopment plan and achieving its goals and objectives, upon its adoption. To assist with that effort, tax increment revenues are allocated to the Agency. Consideration should be given as to the best use of Agency resources, by project area. Should funds be used to continue to further redevelopment objectives and improve City communities (additional parks and libraries), or should the repayment of City debt become a priority (where funding could be used for operational needs)? Repayment of debt may come at the expense of redevelopment projects, so the benefits of each must be weighed.

The IBA recommends that a full assessment be conducted to determine the feasibility of repaying these loans, including the impact on planned redevelopment activities, and that repayment plans be developed as deemed appropriate.

Redevelopment Organization

The IBA's Report 06-31 on Redevelopment Restructuring reviewed several options regarding restructuring of the Redevelopment Agency and the Mayor's role in the Redevelopment Agency. Varying options are available to the City and the Agency including maintaining the existing structure wherein project areas are managed by three separate entities (two independent corporations, Centre City Development Corporation and Southeastern Economic Development Corporation, and the City's internal Redevelopment Division, currently within the City Planning and Community Investment

Department). The IBA primarily has concerns about staffing and the achievement of overall goals and objectives for the Agency as a whole.

Staffing

In the Focused Study of Redevelopment Practices conducted by Clarion and Waronzof Associates, the consultant noted "the apparent slimness of current professional/ administrative staffing levels at SDRA." The current staffing levels are depicted in the following table:

Fiscal Year 2008 Full Time Equivalents (FTEs)	
Centre City Development Corporation (CCDC)	55.15
City's Redevelopment Division	28.00
Southeastern Economic Development Corporation (SEDC)	14.50

CCDC currently has the highest staffing levels and manages two project areas (average of 27.58 FTEs per project area); the City's Redevelopment Division has 28.00 FTEs and manages eleven project areas (average of 2.55 FTEs per project area); and SEDC has 14.50 FTEs to manage four project areas (average of 3.63 FTEs per project area). Also, certain staff in the Redevelopment Division are responsible for agency-wide activities, including the Deputy Executive Director and Recorder.

The City's Redevelopment Division is directly impacted by the activities of the City, whereas CCDC and SEDC may not. This is especially true in regard to personnel, for example:

- When facing fiscal constraints, the City may implement a hiring freeze. In practice this has applied to the Redevelopment Division; however not to CCDC and SEDC.
- The Redevelopment Division may be required to fill a vacant position with an impacted position during a reduction-in-force process; this process does not apply to CCDC and SEDC.

A recommendation in the Study on Redevelopment Practices suggests "revisions to the Civil Service Commission's current, often arcane hiring policies and practices that have consistently hamstrung staffing efforts." Specific, targeted changes in hiring policies and practices for the division may be difficult considering the Civil Service Commission provides guidance for the entire City (over 10,000 employees). However, the corporations (CCDC and SEDC) have more ability to impact changes and respond more quickly to hiring needs due to their much smaller size and independence.

The Redevelopment Division is also more directly impacted by the financial environment of the City. The IBA is encouraged to hear that additional staffing will be requested and additional professional development and training will occur. Unfortunately, the IBA has concerns about the stability of the funding for these vital efforts and the ability to bring these actions to fruition. Training, especially, has been reduced due to lack of resources. These reductions have occurred across the board, sometimes regardless of a department's funding source. Also, it should be noted that for Fiscal Year 2008, the Redevelopment

Division requested an additional seven positions in the areas of financial analysis, real estate analysis, contract administration, housing outreach, master plan updates, and project management, in which all positions were fully reimbursable. Only one position was added to the budget.

The current structure may result in a duplication of efforts that could be addressed if the structure were to change.

Agency Goals and Objectives

Most entities, both public and private, are adopting mission statements, goals, vision statements, annual priorities, etc. as a means to guide the entity in its day-to-day activities. This growing trend has now started to permeate California redevelopment agencies. Many agencies have begun to adopt similar items in order to provide their members with guiding principles. The Community Redevelopment Agency of the City of Los Angeles not only maintains an extensive and detailed mission statement, but also releases an annual list of priorities. Similar to Los Angeles, the San Jose Redevelopment Agency has a detailed mission statement and priorities for the agency as a whole and also, for specific redevelopment projects.

The Agency is committed to the achievement of specific goals and objectives identified in the individual redevelopment project area plans. However, the IBA believes there is a need to identify mission statements and goals that guide the entire Agency. The Agency has previously performed performance evaluations or management studies on the individual entities to determine their effectiveness and provide recommendations for improvement, with these reports focused on an individual entity. The IBA believes it may be better to obtain a performance assessment, or conduct a review process similar to the Mayor's Business Process Reengineering efforts, to address the Agency as a whole.

In the 2004 Annual Financial Report on the Redevelopment Agency, a reportable condition was identified, "Although the management companies properly record land-held-for-resale transactions in their internal records, the management companies did not timely communicate … information to the Agency resulting in financial statement errors." Again, the issue is not whether individually the entities are achieving optimal success, but rather, is the Agency as a whole as successful as it could be.

In conjunction with the development and achievement of the overall goals and objectives of the Agency, consistency amongst the Agency is crucial. The IBA has previously remarked on the difficulty in reviewing the Agency's 2008 Proposed Budget due to the different development and display of the three entities of the Agency. Standardization and consistency may be difficult for the Agency to achieve as it relates to the budget, since each entity utilizes their own software and computer applications and prepares budgetary information for different audiences.

CONCLUSION

The IBA's primary goal of this report was to further the understanding of a complicated, but vital component of the City of San Diego.

The IBA recommends that a full assessment be conducted of the Agency's outstanding debt to the City to determine the appropriateness of specific obligations (i.e. Section 108 loans), the feasibility of repaying these loans, including the impact on planned redevelopment activities; and that a repayment plan(s) be developed as deemed appropriate.

The IBA believes that there is a basis for the determination to institute change in regard to the Redevelopment Agency's structure. The current structure lends to an inequity amongst the three management entities as it relates to staffing. The IBA believes in the need to establish an overall Agency mission statement and identify goals to ensure the Agency is operating as a whole versus individual entities.

[SIGNED]

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