
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 2

Redevelopment Agency Fiscal Year 2009 Budget

OVERVIEW

On May 20, 2008, the Proposed Fiscal Year 2009 Redevelopment Agency budget will be heard and recommended for adoption by staff. This item includes the proposed budgets for the eleven projects areas administered by the City's Redevelopment Division, the two projects areas administered by the Centre City Development Corporation (CCDC), the four project areas administered by the Southeastern Economic Development Corporation (SEDC), and the administrative budgets for CCDC and SEDC. Also, the authorization for loan and loan repayments is requested. It should be noted that, although the Redevelopment Agency loan repayment of \$5 million from the Centre City project area, administered by CCDC, is budgeted; the actual authorization to process this transfer at this time is not included. This topic will be discussed in more detail later in this report.

*Redevelopment Project Areas
as managed by:*

City Redevelopment Division:

Barrio Logan, City Heights,
College Community, College
Grove, Crossroads, Grantville,
Linda Vista, Naval Training
Center, North Bay, North Park,
San Ysidro

Centre City Development
Corporation:

Centre City, Horton Plaza
Southeastern Economic Development
Corporation:

Central Imperial, Gateway Center
West, Mount Hope, Southcrest

The budget format has been modified based on previous recommendations by the IBA to utilize a more consistent format. We commend staff for this effort, and believe that this applies a more consistent format that enables more direct comparisons between the entities that manage the project areas for the Agency. The previous format resembled that of three separate companies, whereas the new format reflects the budget of one business that has three departments.

Also, as part of the formatting changes to achieve consistency, handling of “carryover” funds has been modified. These amounts, which represent funding appropriated in previous fiscal years that have yet to be expended, are called out separately and distinctly. In reviewing the documents, a reader will be able to more clearly understand and distinguish those amounts that are “carryover” from those that are being budgeted for the first time.

FISCAL/POLICY DISCUSSION

Table 1 summarizes the revenue and expenditures for Fiscal Year 2009 as administered by CCDC, SEDC, and the City and provides a comparison of this information with the previous year’s budget. Total Redevelopment Agency revenues are estimated to reach \$320.3 million for Fiscal Year 2009.

TABLE 1. REDEVELOPMENT AGENCY
Comparison of Fiscal Year 2008 and 2009 Budgets
 Revenue and Expenditures (in millions)

| | CCDC | | SEDC | | City | | Agency | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------|-----------------|
| | FY08 SUB TOTAL | FY09 SUB TOTAL | FY08 SUB TOTAL | FY09 SUB TOTAL | FY08 SUB TOTAL | FY09 SUB TOTAL | FY08 TOTAL | FY09 TOTAL |
| Revenue | | | | | | | | |
| Tax Increment | | \$ 98.6 | | \$ 5.9 | | \$ 36.7 | | \$ 141.2 |
| Tax Increment - 20% Housing | | 24.6 | | 1.5 | | 9.2 | | 35.3 |
| Total Tax Increment | 102.1 | 123.2 | 6.8 | 7.4 | 40.5 | 45.9 | 149.4 | 176.5 |
| Tax Allocation Bond/Line of Credit | 60.1 | 30.0 | 24.2 | 1.4 | 42.2 | 14.4 | 126.5 | 45.8 |
| Developer Proceeds/Advances | 3.0 | 14.6 | 0.1 | - | 0.9 | 0.4 | 4.0 | 15.0 |
| Interest, Lease, Note, Other Revenue | 19.4 | 21.1 | 0.0 | 0.1 | 0.6 | 0.6 | 20.1 | 21.8 |
| Revenue from Other Agencies | - | 4.8 | - | - | 0.2 | 0.1 | 0.2 | 4.9 |
| City Loans/Re loans | - | - | 1.3 | 1.2 | - | - | 1.3 | 1.2 |
| Transfer From/To Other Projects | - | - | - | 1.3 | - | - | - | 1.3 |
| Prior Year Revenues/Adjustments | 33.0 | 41.8 | - | 8.5 | 2.5 | 3.5 | 35.5 | 53.8 |
| Subtotal | 217.5 | 235.5 | 32.5 | 19.9 | 87.0 | 64.9 | 336.9 | 320.3 |
| Carryover | | 258.2 | | 30.3 | | 70.7 | | 359.2 |
| Total Revenue | \$ 217.5 | \$ 493.7 | \$ 32.5 | \$ 50.2 | \$ 87.0 | \$ 135.6 | \$ 336.9 | \$ 679.5 |
| Expenditures | | | | | | | | |
| Capital Projects | \$ 84.1 | \$ 128.9 | \$ 15.1 | \$ 9.1 | \$ 25.2 | \$ 26.7 | \$ 124.3 | \$ 164.7 |
| Low/Mod Housing | 74.1 | 27.4 | 7.5 | 2.4 | 30.8 | 10.1 | 112.4 | 39.9 |
| Tax-sharing Agreements | 13.4 | 18.0 | 0.7 | 0.9 | 9.9 | 10.4 | 24.0 | 29.3 |
| City Services/Administration | 9.4 | 10.6 | 2.6 | 3.3 | 7.6 | 5.0 | 19.6 | 18.9 |
| Debt Service | 36.6 | 45.6 | 6.6 | 4.2 | 13.4 | 12.5 | 56.7 | 62.3 |
| City Repayments | - | 5.0 | - | - | - | - | - | 5.0 |
| Subtotal | 217.5 | 235.5 | 32.5 | 19.9 | 87.0 | 64.9 | 336.9 | 320.3 |
| Carryover | | 258.2 | | 30.3 | | 70.7 | | 359.2 |
| Total Expenditures | \$ 217.5 | \$ 493.7 | \$ 32.5 | \$ 50.2 | \$ 87.0 | \$ 135.6 | \$ 336.9 | \$ 679.5 |

A similar table, summarizing the Fiscal Year 2009 Proposed Revenue and Expenditures by project area can be found in Attachment A.

Revenue

Base revenue (exclusive of carryover) has decreased as a whole by 5%. This is primarily associated with the reduced level of new proceeds from bonds/line of credit. Tax Increment, the largest source of revenue, is projected to increase by approximately 18%. Table 2 summarizes gross tax increment by project area for the last four years, including the changes from Fiscal Year 2008.

**TABLE 2. REDEVELOPMENT AGENCY
FY06 - FY09 Budget Comparison**

Gross Tax Increment (in millions) by Project Area

| Project Area | Budget FY 2006 | Budget FY 2007 | Budget FY 2008 | Proposed FY 2009 | Change (08-09) | % Change |
|-------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|---------------------------|-----------------|
| Centre City | \$ 57.4 | \$ 71.7 | \$ 93.9 | \$ 118.7 | \$ 24.8 | 26.5% |
| Horton Plaza | 5.9 | 7.4 | 8.3 | 4.5 | (3.8) | -45.6% |
| Central Imperial | 1.7 | 1.9 | 2.3 | 2.5 | 0.2 | 8.1% |
| Gateway Center West | 0.3 | 0.3 | 0.3 | 0.3 | 0.0 | 6.4% |
| Mount Hope | 1.1 | 1.4 | 1.4 | 1.7 | 0.3 | 23.4% |
| Southcrest | 1.1 | 1.5 | 2.8 | 2.9 | 0.1 | 3.2% |
| Barrio Logan | 0.4 | 0.5 | 0.5 | 0.7 | 0.2 | 50.9% |
| City Heights | 10.0 | 12.6 | 13.1 | 14.0 | 0.9 | 7.3% |
| College Community | 0.2 | 0.8 | 0.9 | 1.1 | 0.2 | 29.1% |
| College Grove | 0.8 | 0.8 | 0.7 | 0.7 | (0.0) | -0.7% |
| Crossroads | 1.8 | 4.2 | 3.2 | 4.0 | 0.8 | 24.2% |
| Grantville | - | 0.6 | 0.4 | 0.8 | 0.4 | 85.2% |
| Linda Vista | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 16.3% |
| Naval Training Center | 4.0 | 5.2 | 4.3 | 3.9 | (0.4) | -9.1% |
| North Bay | 4.4 | 5.6 | 7.0 | 8.3 | 1.3 | 18.2% |
| North Park | 4.2 | 5.8 | 6.1 | 7.5 | 1.4 | 23.7% |
| San Ysidro | 2.3 | 3.5 | 4.3 | 4.8 | 0.5 | 10.9% |
| Total | \$ 95.8 | \$ 123.7 | \$ 149.4 | \$ 176.5 | \$ 27.1 | 18.1% |
| Previous Years % Change | | 29.0% | 20.8% | | | |

Expenditures

The Fiscal Year 2009 Proposed Budget for the Redevelopment Agency is \$320.3 million, of which capital projects represent 51.4% of the total budget. Table 1 provided a summary of these expenditures by category. Low/Mod Housing category is reflecting a reduction in comparison with Fiscal Year 2008. Fiscal Year 2008 included the budgeting of significant expenses for Low/Mod Housing that have yet to be fully expended. CCDC has \$52.2 million, SEDC has \$3.9 million, and the City Redevelopment Division has \$27.8 million in Low/Mod Housing carryover funds.

The City Services/Administration category also reflects a reduction from Fiscal Year 2008. This is not a reduction per se but a reallocation of administrative expenses directly associated with capital projects. These expenses previously accounted for in the City Services/Administration category have been transferred to the Capital Projects category.

This is a more consistent treatment among the three managing entities that enables equal comparisons to be made.

Administrative Budgets

The three Administrative Budgets for CCDC, SEDC, and City Redevelopment Division have similar changes:

- CCDC is requesting the addition of an Administrative Assistant position and a 0.3 increase to an existing Graphic/Designer position. A 2.5% salary increase is also proposed.
- SEDC is requesting the addition of positions for project development. These position additions were recommended in the Performance Audit performed by Keyser Marston in August 2007. However, the Performance Audit envisioned by the Agency as recommended upon adoption of the Fiscal Year 2008 budget is currently in process by Macias Consulting and is expected to be completed at the end of July. Decisions on positions may wish to be postponed until this report is completed. A 3% salary increase is also proposed.
- The City Redevelopment Division prepares its administrative budget in the confines of the City's system under the management of the Mayor. The division initially requested two new positions, an Assistant Deputy Executive Director and a Clerical Assistant II. Both were originally denied, but the division was able to swap out an existing Supervising Public Information Officer to obtain a Clerical Assistant II position.

The IBA believes that the area of position changes and salary adjustments could be further refined by staff to ensure consistent application of Agency directives/policies. The display of position changes, such as reclassifications, is still not fully consistent between the three entities. Also, the use of salary ranges to budget personnel expenses differs from the City practice of budgeting salary expense based on the average cost for a position classification.

Additionally, the Agency might look at the advantages/ disadvantages in determining whether salary increases should be applied as a whole. The IBA was unable to determine why one entity would apply a 2.5% salary increase while another would apply a 3%. In the future, it might be appropriate to review proposed salary adjustments at a Council Committee meeting as part of the budget development process.

Loan Repayment

The Mayor's Proposed Fiscal Year 2009 Budget includes a loan repayment of \$5 million from the Centre City project area, managed by CCDC. The Redevelopment Agency Proposed Budget also includes this loan repayment. However, unlike the other loan repayments being authorized, the actual loan repayment is not occurring at this time. As the IBA discussed in our review of the Mayor's Proposed Budget (IBA 08-41), the specific details on this loan repayment are not yet finalized. Per the Comptroller's Office, outstanding loans for the Centre City project area are solely from Community Development Block Grants (CDBG). Repayment of the principal on these loans would

still be restricted to eligible expenses. Unless the debt is restructured, the \$5 million repayment will likely not be able to be used to “free up” general fund dollars. Discussions are currently in process with CCDC staff and Mayoral staff to finalize the specific mechanics of the loan repayment. This will be an item that will need to return to Redevelopment Agency for action.

Also, in our report, the IBA discussed the possibility of increasing this loan repayment to \$7.5 or \$10 million, versus the \$5 million proposed. CCDC staff communicated that this could impact the timing of planned projects, possibly including Social Services/Capital Needs Program, “C” Street Corridor and/or Fire Station #1. However, they further noted the impact of shifting the timing somewhat would likely not be detrimental and, in fact, may represent a more realistic schedule for these projects. Depending upon the resolution of the mechanics of this loan repayment, the IBA recommends this increase be considered by the Redevelopment Agency. If a decision is made to adjust the loan repayment, the budget would have to be amended to reflect any increase above the \$5 million.

Other loan repayments are being recommended for approval; however the net of these actions will not reduce the Agency’s overall debt to the City.

Restructuring of the City Redevelopment Division

The City Redevelopment Division has currently received direction to proceed with an assessment and possible implementation of restructuring the organization to an “Agency-Employee Model”. The target date of implementing this restructuring is January 2009. The proposed budget for the Redevelopment Agency includes a line item for \$350,000 that may be needed for consulting services or other services required to assess/implement this change. Other possible budgetary impacts will be reviewed in conjunction with the assessment and will require Agency approval prior to implementation.

CONCLUSION

The IBA is supportive of the Fiscal Year 2009 Proposed Budget as recommended, but encourages additional discussion of position additions and salary adjustments. The IBA recommends that the possibility of increasing the proposed loan repayment from \$5 million to \$7.5 or \$10 million be considered by the Agency.

[SIGNED]

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Attachment A: Redevelopment Agency Fiscal Year 2009 Budget, Revenue and Expenditures by Project Area