OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 4, 2011 **IBA Report Number:** 11-06

City Council/RA Agenda Date: February 8, 2011

Item Number: CC 330/RA 1

Third Amendment to Ballpark Cooperation Agreement

OVERVIEW

In March 2009, the City Council and Redevelopment Agency approved the Second Amendment to the Ballpark Cooperation Agreement ("Second Amendment"), and made certain findings with respect to increasing the Agency's total investment in PETCO Park. Under the Second Amendment, the Agency agreed to make annual payments of $11.3 million to the City associated with the debt service on the Ballpark bonds for a period of five years, from FY 2009 to FY 2013.

The current action would extend the Agency's annual payments to the City from FY 2014 to FY 2032, when the Ballpark bonds reach maturity[1]. If approved, the proposed Third Amendment to the Ballpark Cooperation Agreement ("Third Amendment") would relieve the City of approximately $215 million in debt service payments over this 19-year period. However, it would also present a financial impact to the Redevelopment Agency, and could result in the delay of certain redevelopment projects in the Centre City Redevelopment Project Area.

[1] Technically, the Third Amendment provides for Agency payments to the City from FY12 to FY32. However, this overlaps with the FY12 and FY13 payments that are currently scheduled under the Second Amendment.

FISCAL/POLICY DISCUSSION

Prior to Fiscal Year 2009, the City allocated revenue from the Transient Occupancy Tax (TOT) Fund to pay the $11.3 million annual debt service on the Ballpark bonds, which were issued to finance the construction of PETCO Park. With approval of the Second Amendment to the Ballpark Cooperation Agreement in March 2009, the City's annual debt service payments were offset by equivalent payments from the Redevelopment Agency for a five-year period. This allowed revenue in the TOT Fund to be redirected for General Fund purposes.

Under the current agreement, the Agency's payments to the City are scheduled to expire in FY 2014, at which point the City would have to resume making the annual $11.3 million debt service payment on the Ballpark bonds. The Third Amendment to the Ballpark Cooperation Agreement would extend the Agency's annual payments to the City until FY 2032, when the Ballpark bonds reach maturity. This would permanently offset the City's annual $11.3 million debt service, resulting in additional cumulative savings of approximately $215 million over the life of the bonds[2]. It should be noted that the most recent Five-Year Financial Outlook for FY 2012-2016, released on February 1, 2011, does not include any additional payments by the Agency pursuant to the Third Amendment.

<u>Required Findings</u>

In order to use tax increment revenue to reimburse the City for debt service payments on the Ballpark bonds, the Council and Redevelopment Agency are required to make certain findings that:

1. The additional payment of funds for debt service on the Ballpark bonds is a benefit to the project area;

2. No other reasonable means of financing the additional debt service payments are available to the community;

3. The additional payment of funds for debt service will assist in the elimination of one or more blighting conditions in the project area;

4. The additional payment of funds for debt service is consistent with the Implementation Plan for the project area.

[2] Total payments by the Agency under the Third Amendment are $237.6 million. However, because payments in FY12 and FY13 are already scheduled pursuant to the Second Amendment, the net incremental payment is $215 million.

These findings are consistent with those made by the Council and Redevelopment Agency when the Second Amendment was approved in March 2009. By making these findings in 2009, the Council and Agency have already established the nexus between the Ballpark and the project area, and that the expenditure of redevelopment funds will benefit the project area and result in the continued elimination of blight. The one significant difference from the previous action is that the Third Amendment would result in Agency payments to the City over a 21-year period, instead of a five-year period.

Impact to the Redevelopment Agency

While the Third Amendment would provide significant budgetary relief to the City's General Fund, it would also result in a financial impact to the Redevelopment Agency. Based on preliminary cash flow projections presented to the CCDC Board on January 26, 2011, if the Third Amendment is approved the Centre City and Horton Plaza Redevelopment Project Areas will face a deficit beginning in FY 2015.

It should be noted that these projected deficits are due not only to the extension of payments to the City for debt service on the Ballpark bonds, but also to a sharp increase in tax sharing payments beginning in FY 2013 and an acceleration in planned capital project expenditures in FY 2015. In addition, a number of unforeseen factors have negatively impacted the Redevelopment in recent years, including:

- The prolonged decline in the real estate market, which has significantly reduced tax increment projection and resulted in declining tax increment revenues for the past two fiscal years;

- Transfers to the State Educational Revenue Augmentation Fund (SERAF), which shifted approximately $67.2 million to the State in FY 2010 and FY 2011, including $47.8 million from the Centre City and Horton Plaza project areas;

- The CDBG Repayment Agreement, which will result in repayment of approximately $78.9 million in CDBG funds over the next 10 years, including $63.2 million from the Centre City and Horton Plaza project areas;

- The Second Amendment to the Ballpark Cooperation Agreement, which resulted in $56.6 million in payments from the Centre City project area to the City between FY 2009 and FY 2013.

CCDC has indicated that the projected deficits may be mitigated through future issuances of tax allocation bonds, which would provide additional revenue for project implementation, but increase annual debt service payments. However, in the absence of future tax allocations bond issuances, and without significant improvement in other financial conditions, certain redevelopment projects may have to be delayed. We recommend that CCDC provide additional information with respect to future financing plans and potential project impacts.

In determining whether to approve the Third Amendment and extend the Agency's payments to the City through FY 2032, the Council and Agency Board will need to weigh the priorities of the City against the priorities of the Redevelopment Agency. In this context, it may be difficult to contend that downtown redevelopment projects are a higher priority than critical City services such as police, fire, parks and libraries, which have been significantly eroded over the past several years. However, it should be noted that redevelopment funds were never intended to be used as a source of ongoing funding for general government purposes. As such, the IBA urges the Council and Agency Board to exercise caution in using tax increment to fund current General Fund obligations.

CONCLUSION

The Third Amendment to the Ballpark Cooperation Agreement would extend the Agency's annual payments to the City related to debt service on the Ballpark bonds from FY 2014 to FY 2032, when the Ballpark bonds reach maturity. In order to use tax increment revenue to reimburse the City for debt service payments on the Ballpark bonds, the Council and Redevelopment Agency are required to make certain findings, which are consistent with the findings made in 2009 with the approval of the Second Amendment. The Third Amendment would permanently offset the City's annual $11.3 million debt service, resulting in additional cumulative savings of approximately $215 million over the life of the bonds.

However, this action would also result in a financial impact to the Redevelopment Agency. Cash flow projections from CCDC indicate that with the extended payments under the Third Amendment, the Centre City and Horton Plaza Redevelopment Project Areas will face deficits beginning in FY 2015. While these deficits may be mitigated through the future tax allocation bonds, it may also result in the delay of certain redevelopment projects. In making this decision, the Council and Agency Board will need to weight the priorities of the City against the priorities of the Redevelopment Agency.

[SIGNED]	**[SIGNED]**
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