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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** June 8, 2011

**IBA Report Number:** 11-28 REV

**Redevelopment Agency Agenda Date:** June 14, 2011

**Item Number:** 2

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# Fiscal Year 2012 Proposed Redevelopment Agency Budget

## OVERVIEW

The Fiscal Year 2012 Proposed Budget for the Redevelopment Agency is \$193.2 million, a reduction of approximately \$18.6 million from the FY 2011 Adopted Budget. The Redevelopment Agency consists of 14 project areas that are administered by three operating entities, the City Redevelopment Department, the Centre City Development Corporation (CCDC), and the Southeastern Economic Development Corporation (SEDC)<sup>1</sup>. Each operating entity has separate project area and administrative budgets; collectively, these budgets make up the budget of the Redevelopment Agency.

On January 10, 2011, Governor Jerry Brown released his proposed State of California Budget for 2011-12. Included in the budget was a proposal to disestablish redevelopment agencies statewide as of July 1, 2011. This proposal was again included in the May Revision to the Governor's Budget, which was released on May 16, 2011. While this proposal has not been adopted by the State legislature to date, budget negotiations are ongoing and the disestablishment of redevelopment agencies remains a very real possibility.

On February 28, 2011, the Redevelopment Agency and the City of San Diego entered into a Cooperation Agreement for Payment of Costs Associated with Certain Redevelopment Agency Funded Projects ("Cooperation Agreement"). Under the terms of this Cooperation Agreement, the Agency will transfer funds to the City on an annual basis, and the City will implement certain redevelopment projects on behalf of the Agency. As a result, the FY 2012 Proposed Redevelopment Agency Budget includes funding for both non-housing and affordable housing projects that will be transferred to the City pursuant to the Cooperation Agreement. The table below reflects the

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<sup>1</sup> In FY 2011, four project areas managed by SEDC – Central Imperial, Gateway Center West, Mount Hope and Southcrest – were merged into the consolidated Southeastern San Diego Redevelopment Project Area.

consolidated FY 2012 Proposed Redevelopment Agency Budget. For consistency, the Cooperation Agreement transfers are reflected under non-housing and affordable projects in order to capture the total funding that will be allocated for these purposes.

**FY 2012 PROPOSED REDEVELOPMENT AGENCY BUDGET**

<b>Figures in \$1,000s</b>	<b>City</b>	<b>CCDC</b>	<b>SEDC</b>	<b>TOTAL</b>
<b>REVENUES</b>				
Tax Increment - Non-Housing	\$ 35,619	\$ 97,611	\$ 4,549	\$ 137,779
Tax Increment - Housing	8,882	24,403	1,182	34,467
Developer Proceeds/Advances	391	1,701	-	2,092
Interest, Lease, Notes, Other	59	7,088	26	7,173
Revenue from Other Agencies	-	4,442	-	4,442
Prior Year Revenues/Adjustments	-	4,816	2,481	7,297
<b>TOTAL REVENUES</b>	<b>\$ 44,951</b>	<b>\$ 140,061</b>	<b>\$ 8,238</b>	<b>\$ 193,250</b>
<b>EXPENDITURES</b>				
Capital Projects - Non-Housing	\$ 9,545	\$ 40,151	\$ 1,921	\$ 51,617
<i>Agency Projects</i>	4,367	10,204	-	14,571
<i>Cooperation Agreement<sup>1</sup></i>	5,178	29,947	1,921	37,046
Affordable Housing Projects	2,918	10,769	512	14,199
<i>Agency Projects</i>	2,466	-	-	2,466
<i>Cooperation Agreement<sup>1</sup></i>	452	10,769	512	11,733
Debt Service	14,333	44,356	2,909	61,598
Tax Sharing Payments	10,252	17,000	466	27,718
Other Payments to City	1,924	15,822	356	18,102
<i>CDBG Repayments<sup>2</sup></i>	916	2,500	346	3,762
<i>Non-CDBG Debt Repayment</i>	1,007	-	10	1,017
<i>PETCO Park</i>	-	11,322	-	11,322
<i>Convention Center Phase II</i>	-	2,000	-	2,000
Administration/City Services <sup>3</sup>	5,981	11,962	2,074	20,017
<b>TOTAL EXPENDITURES</b>	<b>\$ 44,951</b>	<b>\$ 140,060</b>	<b>\$ 8,238</b>	<b>\$ 193,249</b>

1. Obligations of the Agency under the Cooperation Agreement constitute indebtedness of the Agency for the purpose of carrying out Redevelopment Plans for the Project Areas.

2. Total CDBG repayment in FY 2012 is \$3.8 million. Approx. \$79,000 is funded from Agency carryover funds.

3. Includes administrative expenses charged to affordable housing and cooperation agreement projects.

In addition to the Cooperation Agreement, on March 15, 2011 the City Council and Redevelopment Agency approved the transfer of certain real property and other assets

from the Agency to the City. As a result of this transfer, it is anticipated that certain property-related revenues, such as leases and rents, will accrue to the City instead of the Agency. However, pursuant to the Assignment Agreement, any such revenues received by the City shall be used for redevelopment purposes within the respective project areas. City and Redevelopment staff are continuing to work on developing the appropriate mechanism for reinvesting these funds back into the project areas from which they are generated, and future City or Redevelopment Agency budget amendments may be necessary.

Overall, the Cooperation Agreement and property transfer from the Agency to the City will present a number of operational challenges and complexities for the Redevelopment Agency in FY 2012, and future budget amendments may be necessary as operating protocols are more clearly defined. However, the IBA believes that these issues have been appropriately incorporated based on the information currently available, and we recommend adopted of the FY 2012 Redevelopment Agency Budget.

## FISCAL/POLICY DISCUSSION

This section provides a review of the FY 2012 Proposed Budget for each of the operating entities, and highlights significant adjustments from FY 2011. For the purpose of this analysis, the IBA has adjusted certain expenditure categories in order to highlight particular expenses, and to achieve consistency in the budgetary presentation across the three entities. As a result, the specific line-item totals may not match what is presented in the budget documents for the three entities.

### City Redevelopment Department

The FY 2012 Proposed Budget for project areas administered by the City Redevelopment Department (“City project areas”) is \$45.0 million, a decline of \$1.6 million from the FY 2011 Adopted Budget. Tax increment revenues are projected to decline by approximately \$415,000, or 0.9% from the FY 2011 budgeted level. Other reductions include a \$332,000 decline in revenue from interest, leases, notes and other sources; and a \$761,000 reduction in prior year revenues and other adjustments.

The FY 2012 Proposed Budget for the City project areas includes \$9.5 million for non-housing capital projects and \$2.9 million for affordable housing projects and activities. As previously mentioned, this includes funding that is budgeted to be transferred to the City pursuant to the Cooperation Agreement. The budget for non-housing and affordable housing projects reflects a decline of \$3.2 million and \$3.3 million, respectively, from the FY 2011 Budget. Other reductions include a \$2.8 million decline in tax sharing payments, which primarily reflects the discontinuation of the two-year transfer of funds to the State Educational Revenue Augmentation Fund (SERAF). In FY 2011, the Agency’s transfer to SERAF was \$11.5 million, including \$2.8 million from City project areas.

These reductions are partially offset by a \$6.2 million increase in debt service payments related to the issuance of Housing and Non-Housing Tax Allocation Bonds, approved in July 2010. The FY 2012 Proposed Budget for City project areas also includes \$996,000<sup>2</sup> in funds to be repaid to the City pursuant to the CDBG Repayment Agreement, approved in June 2010. The total CDBG payment to be made by the Agency in FY 2012 per the Repayment Agreement is \$3.8 million. In addition, the budget for the City project areas includes approximately \$1 million in other debt repayments to the City, including \$800,000 that may be used for General Fund purposes. This was one of the budget solution options included in the City Council's April 12, 2011 Budget Resolution.

**CITY REDEVELOPMENT DEPARTMENT**

<b>Figures in \$1,000s</b>	<b>FY 2011 Budget</b>	<b>FY 2012 Proposed</b>	<b>Change</b>
<b>REVENUES</b>			
Tax Increment - Non-Housing	\$ 35,933	\$ 35,619	\$ (314)
Tax Increment - Housing	8,983	8,882	(101)
Developer Proceeds/Advances	446	391	(54)
Interest, Lease, Notes, Other	392	59	(332)
Prior Year Adjustments	761	-	(761)
<b>TOTAL REVENUES</b>	<b>\$ 46,514</b>	<b>\$ 44,951</b>	<b>\$ (1,562)</b>
<b>EXPENDITURES</b>			
Capital Projects - Non-Housing	\$ 12,718	\$ 9,545	\$ (3,173)
Affordable Housing Projects	6,185	2,918	(3,267)
Debt Service	8,169	14,333	6,164
Tax Sharing Payments	13,075	10,252	(2,824)
Other Payments to City	971	1,924	953
Administration/City Services	5,396	5,981	585
<b>TOTAL EXPENDITURES</b>	<b>\$ 46,514</b>	<b>\$ 44,951</b>	<b>\$ (1,563)</b>

The total administrative budget for City project areas is \$6.0 million, an increase of approximately \$585,000. The administrative budget includes costs associated with the City Redevelopment Department, as well as other City service charges and direct Agency costs. The FY 2012 Proposed Budget for the City Redevelopment Department is \$3.8 million, reflecting a slight decrease from FY 2011. Total positions are budgeted at 31.50 FTE, unchanged from FY 2011. The net increase in the total administrative budget primarily reflects the budgeting of \$600,000 in County charges as an administrative

<sup>2</sup> Includes \$78,900 funded from carryover.

expense rather than a project expense. Other significant adjustments include a \$300,000 increase in City service charges, and a \$267,000 reduction due to budgeting of code enforcement expenses in the project budgets rather than the administration budget. In addition, it should be noted that the total administrative budget of \$6.0 million includes \$209,000 in administrative expenses that are charged to affordable housing projects.

#### Centre City Development Corporation

The FY 2012 Proposed Budget for project areas administered by the Centre City Development Corporation (“CCDC project areas”) is \$140.1 million, a reduction of \$14.6 million from the FY 2011 Adopted Budget. Tax increment revenues are projected to be \$122.0 million, reflecting a \$3.2 million decline from the FY 2011 budget level, but flat growth from FY 2011 revised projections.

Prior year revenues and adjustments declined by \$11.1 million from FY 2011. This category captures the reconciliation of tax increment and other revenues received in prior years, as well as any unobligated funding from prior year budgets. Due to the transition to SAP in FY 2010, CCDC identified a significant amount of unobligated funding in project budgets from prior years. As a result, the FY 2011 budget reflected a one-time spike in revenue from these adjustments. Other significant revenue adjustments include a \$4.6 million reduction in revenue from interest, leases, notes and other sources, \$3.9 million of which is due to revenues that will be transferred to the City pursuant to the Cooperation Agreement and property transfer from the Agency to the City; and a \$4.4 million increase in revenue from other agencies, primarily State grants related to the pedestrian bridge.

The proposed budget includes \$40.2 million in funding for non-housing capital projects and \$10.8 million for affordable housing projects, reflecting a reduction of \$5.3 million and \$3.4 million respectively. This funding for non-housing capital projects includes \$10.2 million in Agency funding, and \$29.9 million in funding to be transferred to the City per the Cooperation Agreement. The \$10.8 million budget for affordable housing projects is comprised entirely of funding to be transferred per the Cooperation Agreement.

Other significant expenditure adjustments include an \$8.2 million reduction in tax sharing payments and a \$2.5 million increase in other payments to the City. The reduction in tax sharing payments reflects the discontinuation of the two-year SERAF transfer, while the increase in payments to the City reflects a \$500,000 increase in the CDBG repayment and a \$2 million reimbursement for debt service on the Convention Center Phase II Expansion bonds.

**CENTRE CITY DEVELOPMENT CORPORATION**

Figures in \$1,000s	FY 2011 Budget	FY 2012 Proposed	Change
<b>REVENUES</b>			
Tax Increment - Non-Housing	\$ 100,207	\$ 97,611	\$ (2,596)
Tax Increment - Housing	25,052	24,403	(649)
Developer Proceeds/Advances	1,801	1,701	(100)
Interest, Lease, Notes, Other	11,652	7,088	(4,564)
Revenue from Other Agencies	-	4,442	4,442
Prior Year Adjustments	15,921	4,816	(11,105)
<b>TOTAL REVENUES</b>	<b>\$ 154,633</b>	<b>\$ 140,061</b>	<b>\$ (14,572)</b>
<b>EXPENDITURES</b>			
Capital Projects - Non-Housing	\$ 45,494	\$ 40,151	\$ (5,343)
Affordable Housing Projects	14,194	10,769	(3,425)
Debt Service	44,298	44,356	58
Tax Sharing Payments	25,159	17,000	(8,159)
Other Payments to City	13,319	15,822	2,503
Administration/City Services	12,169	11,962	(207)
<b>TOTAL EXPENDITURES</b>	<b>\$ 154,633</b>	<b>\$ 140,060</b>	<b>\$ (14,573)</b>

The total administrative budget for CCDC project areas is approximately \$12.0 million, a reduction of approximately \$200,000 from FY 2011. This includes CCDC's administrative budget, as well as various City service charges and other direct Agency costs. It should be noted that the total administrative budget for CCDC project areas includes administrative costs that will be charged to affordable housing as well as to Cooperation Agreement projects.

The administrative budget for CCDC is \$8.2 million, a reduction of \$205,000 from FY 2011. Total budgeted positions are 46.3 FTE, a net reduction of 1.5 FTE from FY 2011. Position adjustments include the reduction of 1.0 Assistant Vice President, 1.0 Community Relations Manager and 0.5 Communications Specialist, offset by the addition of 1.0 Senior Project Manager for Economic Development. In addition, the budget includes the salary and fringe for the CCDC President, which is currently vacant. Total personnel expense is \$5.98 million, a reduction of approximately \$56,000 from FY 2011. Funding has been included for 2% merit increases that will be awarded on a case-by-case basis. Non-personnel expense is \$2.2 million, a reduction of approximately \$150,000.

Southeastern Economic Development Corporation

On February 28, 2011, the City Council adopted an ordinance amending the Redevelopment Plans for the four project areas administered by SEDC to merge the project areas into the Southeastern San Diego Merged Redevelopment Project Area. As such, the FY 2012 Proposed Budget for SEDC reflects only the merged project area.

The FY 2012 Proposed Budget for the project area administered by the Southeastern Economic Development Corporation (“SEDC project area”) is \$8.2 million, a reduction of \$2.5 million from the FY 2011 Adopted Budget. Tax increment revenues are projected at \$5.7 million, an increase of \$132,000 from the FY 2011 Adopted Budget, but reflecting flat growth from FY 2011 revised projections. Other significant revenue adjustments include a \$1.7 million reduction in bond proceeds, and an \$878,000 reduction in prior year revenues and adjustments. The FY2012 Proposed Budget also anticipates a minimum of \$250,000 in revenue from a legal settlement. This revenue is reflected in SEDC’s administrative budget, but is not included in the Agency’s budget for SEDC project areas since it is revenue that belongs to the corporation and not the Agency.

**SOUTHEASTERN ECONOMIC DEVELOPMENT CORPORATION**

<b>Figures in \$1,000s</b>	<b>FY 2011 Budget</b>	<b>FY 2012 Proposed</b>	<b>Change</b>
<b>REVENUES</b>			
Tax Increment - Non-Housing	4,479	4,549	70
Tax Increment - Housing	1,120	1,182	62
Bond Proceeds/Lines of Credit	1,721	-	(1,721)
Interest, Lease, Notes, Other	26	26	-
Prior Year Adjustments	3,359	2,481	(878)
<b>TOTAL REVENUES</b>	<b>10,705</b>	<b>8,238</b>	<b>(2,467)</b>
<b>EXPENDITURES</b>			
Capital Projects - Non-Housing	1,673	1,921	248
Affordable Housing Projects	2,292	512	(1,780)
Debt Service	3,290	2,909	(381)
Tax Sharing Payments	1,032	466	(566)
Other Payments to City	312	356	44
Administration/City Services	2,106	2,074	(32)
<b>TOTAL EXPENDITURES</b>	<b>10,705</b>	<b>8,238</b>	<b>(2,467)</b>

The proposed budget includes \$1.9 million in funding for non-housing capital projects, an increase of \$248,000 from FY 2011. Funding for affordable housing projects and activities is budgeted at \$512,000, reflecting a reduction of \$1.8 million. All funding for non-housing and affordable housing projects is scheduled to be transferred to the City pursuant to the Cooperation Agreement. Other significant budget adjustments include a \$381,000 reduction in bond debt service due to the retirement of the Gateway Center West 1995 bonds in FY 2011, and a \$566,000 reduction in tax sharing payments due primarily to the discontinuation of the two-year SERAF payments. The FY 2012 Proposed Budget also includes \$356,000 in other payments to the City, which is comprised of \$346,000 in CDBG repayments and \$10,000 in General Fund debt repayment.

The total administrative budget for SEDC project areas is \$2.1 million, a reduction of \$32,000 from the FY 2011 Adopted Budget. This includes SEDC's administrative budget, as well as various City service charges and other direct Agency costs. The total FY 2012 administrative budget for SEDC is \$1.72 million, an increase of \$174,000 from the FY 2011 Adopted Budget, but unchanged from the FY 2011 Amended Budget. Personnel expenses increased \$233,000, while non-personnel expenses declined \$59,000. The increase in personnel expenses is attributable to a number of factors. First, in FY 2011 the administrative budget was amended to provide a 2.5% cost of living increase for SEDC staff. This increase is reflected in the FY 2012 Proposed Budget, though no further cost of living increases or bonuses are included. Second, the FY 2012 Proposed Budget reflects the net increase of one position (an Account Clerk), for a total of 11.00 budgeted positions. In addition, two positions were reclassified. Finally, the FY 2012 Proposed Budget includes the annualized salary and fringe for the SEDC President. In FY 2011, this position was only budgeted for one-half of the year, while funding for the interim President was budgeted as non-personnel expense.

It should be noted that while the total FY 2012 administrative budget for SEDC is \$1.72 million, only \$1.47 million is reflected as an administrative expense in the Agency's budget. As previously mentioned, SEDC anticipates receiving a minimum of \$250,000 in revenue from a legal settlement in FY 2012, which will offset certain legal and audit expenses that are included in the corporation budget, but that are not included in the Agency's budget. This results in an unusual situation where the corporation's administrative budget is different than the Agency's administrative budget. However, the IBA agrees with the manner in which SEDC's administrative budget has been reflected in the FY 2012 Budget.

## CONCLUSION

The FY 2012 Proposed Redevelopment Agency Budget is \$193.2 million, a reduction of approximately \$18.6 million from the FY 2011 Adopted Budget. Total tax increment

revenues are projected to be \$172.2 million, a slight decline from the FY 2011 Adopted Budget, but reflecting essentially flat growth from revised FY 2011 projections. Other significant revenue reductions are largely attributable to a decline in prior year revenues and adjustments.

One of the most significant budgetary issues for the Redevelopment Agency in FY 2012 is the transfer of funding to the City pursuant to the Cooperation Agreement approved by the Agency Board and City Council on February 28, 2011. Under the terms of this Cooperation Agreement, the Agency will transfer funds to the City on an annual basis, and the City will implement certain redevelopment projects on behalf of the Agency. As a result, the FY 2012 Proposed Redevelopment Agency Budget includes funding for both non-housing and affordable housing projects that will be transferred to the City pursuant to the Cooperation Agreement.

The FY 2012 Proposed Redevelopment Agency Budget also includes \$3.8 million for payments to the City pursuant to the CDBG Repayment Agreement, approved in June 2010. In addition, \$1 million is budgeted for other debt repayment to the City, of which approximately \$800,000 may be used for General Fund purposes. Redevelopment Agency repayment of General Fund debt was one of the items included in the Budget Resolution adopted by the City Council on April 12, 2011. The IBA recommends adoption of the FY 2012 Redevelopment Agency Budget.

**[SIGNED]**

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Tom Haynes  
Fiscal & Policy Analyst

**[SIGNED]**

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APPROVED: Andrea Tevlin  
Independent Budget Analyst