

# EXECUTIVE SUMMARY

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** September 22, 2011

**IBA Report Number:** 11-55

**City Council Docket Date:** September 27, 2011

**Item Number:** 334

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## First Amendment to the Third Rehabilitation Grant Agreement with the NTC Foundation

On Tuesday, September 27 the City Council will be requested to approve the First Amendment to the Third Rehabilitation Grant Agreement with the NTC Foundation ("First Amendment"). The First Amendment will provide additional grant funding in an amount not to exceed \$800,000 to support the Foundation's Phase II development plan, which includes the rehabilitation of eight buildings within the Civic, Arts and Cultural Center (CACC) in the Naval Training Center Historic Core. This additional funding would partially mitigate a gap in the development budget resulting from a recent opinion by the City Attorney's Office with regard to the application of prevailing wages to all Phase II development buildings. The Phase II development budget originally anticipated prevailing wages being applicable to the three buildings funded by Agency grant funds but not to all eight buildings. Staff is recommending that a refund of property tax payments made by the Agency on behalf of the Foundation in early 2011 be used as the funding source for the additional grant under the First Amendment.

Overall, the IBA supports the staff recommendation and the additional grant under the proposed First Amendment. Initially, our office had concerns with the request for additional funding, particularly following the action taken by the Agency in February to pay property taxes on behalf of the Foundation. However, after speaking extensively with Redevelopment staff and reviewing the matter further, we now view these issues as two unrelated set of circumstances. The property tax refund that is proposed to be used as the funding source for the additional grant are tax increment funds that must be used for redevelopment purposes within the NTC project area. In addition, staff has indicated that the Foundation is unable to raise the necessary funding through donations or other fundraising efforts, largely due to continued weakness in economic conditions. Finally, and most significantly, if all funding sources are not in place by October 1, the Foundation will fail to secure the New Markets Tax Credits, which will cause the entire \$20 million financing package to unravel and jeopardize the Phase II development plan.