THE CITY OF SAN DIEGO

DATE ISSUED: May 14, 2008

REPORT NO: RA-08-15
RTC-08-072

ATTENTION: Honorable Chair and Members of the Redevelopment Agency,
Council President and City Council
Docket of May 20, 2008

SUBJECT: Redevelopment Agency Fiscal Year 2009 Budget

REQUESTED ACTION:

Should the Redevelopment Agency:

1. Approve the Fiscal Year 2009 Redevelopment Agency budget for:
   a) projects administered by the Centre City Development Corporation;
   b) projects administered by the Southeastern Economic Development Corporation;
   c) projects administered by the City's Redevelopment Division;
   d) the administration of Centre City Development Corporation; and
   e) the administration of Southeastern Economic Development Corporation?

2. Authorize a Sales Tax (Fund 10227) loan repayment to the City of San Diego in the amount of $400,000 from the Southcrest Redevelopment Project Area?

3. Authorize a Capital Outlay Fund (Fund 302453) loan repayment to the City of San Diego in the amount of $815,000 from the Southcrest Redevelopment Project Area?

4. Accept the transfer of $400,000 from the City of San Diego as an interest bearing Sales Tax loan (Fund 10227) to be used in the Fiscal Year 2009 project budget for the Gateway Center West Redevelopment Project Area?

5. Accept the transfer of $815,000 from the City of San Diego as an interest bearing Capital Outlay Fund (Fund 302453) loan to be used in the Fiscal Year 2009 project budget for the acquisition of properties in the Central Imperial Redevelopment Project Area?

6. Determine that the planning and administration expenses included in the Low- and Moderate-Income Housing Funds in the Fiscal Year 2009 Redevelopment Agency Budget are necessary

and in proportion to the funding for the production, improvement, and/or preservation of affordable housing for low- and moderate-income households?

7. Approve the Agency's Low and Moderate Income Housing Policy and Guidelines, and authorize the Agency Executive Director (or designee) to revise the policy and guidelines on a periodic basis to ensure compliance with applicable law and market conditions?

Should the City Council:

1. Accept a Sales Tax (Fund 10227) loan repayment to the City of San Diego in the amount of $400,000 from the Southcrest Redevelopment Project Area?

2. Accept a Capital Outlay Fund (Fund 302453) loan repayment to the City of San Diego in the amount of $815,000 from the Southcrest Redevelopment Project Area?

3. Authorize the transfer of $400,000 from the City of San Diego as an interest bearing Sales Tax loan (Fund 10227) to be used in the Fiscal Year 2009 project budget for the Gateway Center West Redevelopment Project Area?

4. Authorize the transfer of $815,000 from the City of San Diego as an interest bearing Capital Outlay Fund (Fund 302453) loan to be used in the Fiscal Year 2009 project budget for the acquisition of properties in the Central Imperial Redevelopment Project Area?

STAFF RECOMMENDATION:

It is recommended that the Redevelopment Agency adopt resolutions to:

1. Appprove the Fiscal Year 2009 Redevelopment Agency budget for:
    a) projects administered by the Centre City Development Corporation;
    b) projects administered by the Southeastern Economic Development Corporation;
    c) projects administered by the City's Redevelopment Division;
    d) the administration of Centre City Development Corporation; and
    e) the administration of Southeastern Economic Development Corporation.

2. Authorize a Sales Tax (Fund 10227) loan repayment to the City of San Diego in the amount of $400,000 from the Southcrest Redevelopment Project Area.

3. Authorize a Capital Outlay Fund (Fund 302453) loan repayment to the City of San Diego in the amount of $815,000 from the Southcrest Redevelopment Project Area.

4. Accept the transfer of $400,000 from the City of San Diego as an interest bearing Sales Tax loan (Fund 10227) to be used in the Fiscal Year 2009 project budget for the Gateway Center West Redevelopment Project Area.

5. Accept the transfer of $815,000 from the City of San Diego as an interest bearing Capital Outlay Fund (Fund 302453) loan to be used in the Fiscal Year 2009 project budget for the acquisition of properties in the Central Imperial Redevelopment Project Area.

6. Determine that the planning and administration expenses included in the Low- and Moderate-Income Housing Funds in the Fiscal Year 2009 Redevelopment Agency Budget are necessary and in proportion to the funding for the production, improvement, and/or preservation of affordable housing for low- and moderate-income households.

7. Approve the Agency's Low and Moderate Income Housing Fund Policy and Transaction Guidelines, and authorize the Agency Executive Director (or designee) to revise the policy and guidelines on a periodic basis to ensure compliance with applicable law and market conditions.

It is recommended that the City Council adopt resolutions to:

1. Accept a Sales Tax (Fund 10227) loan repayment to the City of San Diego in the amount of $400,000 from the Southcrest Redevelopment Project Area.

2. Accept a Capital Outlay Fund (Fund 302453) loan repayment to the City of San Diego in the amount of $815,000 from the Southcrest Redevelopment Project Area.

3. Authorize the transfer of $400,000 from the City of San Diego as an interest bearing Sales Tax loan (Fund 10227) to be used in the Fiscal Year 2009 project budget for the Gateway Center West Redevelopment Project Area.

4. Authorize the transfer of $815,000 from the City of San Diego as an interest bearing Capital Outlay Fund (Fund 302453) loan to be used in the Fiscal Year 2009 project budget for the acquisition of properties in the Central Imperial Redevelopment Project Area.

SUMMARY:

Agency Organization

The Redevelopment Agency of the City of San Diego was created by the City Council in 1958 to alleviate conditions of blight in older, urban areas. The Redevelopment Agency is able to use special legal and financial mechanisms to eliminate blight and improve economic and physical conditions in designated areas of the City. This authority is conferred on the Agency through the state of California's Health and Safety Code (Section 33000-et.seq.), also known as the California Community Redevelopment Law.

The City Council serves as the Board of Directors of the Redevelopment Agency; the Mayor serves as the Executive Director. Project implementation for the Agency is provided by three organizations:

- City's Redevelopment Division
- Centre City Development Corporation (CCDC)
- Southeastern Economic Development Corporation (SEDC)

Centre City Development Corporation

In 1975 the City Council established the Centre City Development Corporation (CCDC) as a non profit public corporation to mange redevelopment projects and activities in the downtown area. CCDC makes recommendations and reports to the Agency and Council on such matters. The Corporation is governed by a seven member Board of Directors appointed by the City Council.

CCDC administers two adopted project areas:

- Centre City
- Horton Plaza

Southeastern Economic Development Corporation

In 1982 the City Council established the Southeastern Economic Development Corporation (SEDC) as a non profit public corporation to manage redevelopment and economic development projects and activities in the southeastern areas of San Diego. SEDC makes recommendations and reports to the Agency and Council on such matters. The Corporation is governed by a nine member Board of Directors appointed by the City Council.

SEDC administers four adopted project areas, and one study area:

- Gateway Center West
- Central Imperial
- Mount Hope
- Southcrest
- Dells Imperial Study Area

City Redevelopment

The Redevelopment Division manages redevelopment activities within redevelopment project areas throughout the City. The division also performs general Redevelopment Agency administration including City and corporation activities. The City Redevelopment Division coordinates budget and State reporting requirements and maintaining the Agency's meeting docket, official records and website.

The City Redevelopment Division administers eleven adopted project areas and one study area:

- Barrio Logan
- City Heights
- College Community
- College Grove
- Crossroads
- Grantville
- Linda Vista
- Naval Training Center
- North Bay
- North Park
- San Ysidro
- Barrio Logan Expansion Study Area

Mission and Goals

The Agency's mission is to revitalize redevelopment project areas through community collaboration, public/private partnerships, public and private development activities and improvements in support of the City's General Plan. To accomplish this mission the Agency has established five goals, as follows:

1. **Eliminate Blight**: To eliminate blight and urban decay.
2. **Improve Public Infrastructure**: To provide, upgrade, restore, and enhance public infrastructure and facilities.
3. **Increase Housing Opportunities:** To increase the supply of housing, improve housing conditions, and increase affordable housing opportunities.
4. **Economic Development**: To promote economic development activities that retain and expand business and employment opportunities.
5. **Neighborhood Preservation:** To enhance and preserve neighborhood character, and rehabilitate historical properties.

The Agency endeavors to achieve these goals through support of community planning activities, public outreach, and through sound fiscal management practices, including the leveraging of Agency resources and enhancing private investments.

As a part of our efforts to improve and standardize the budget of the respective entities (City Redevelopment, CCDC, and SEDC) each respective budget contains Work Plans that demonstrate the actions planned to achieve the Agency's goals.

Budget Summary

The budgets for each of the three entities are attached to this report. The following information summarizes the three budgets to reflect the combined Redevelopment Agency Budget for Fiscal Year 2009.

Revenues

The Redevelopment Agency's Fiscal Year 2009 combined revenue is $320.3 million. In addition, an estimated $359.2 million in revenue is anticipated to be carried over from the prior year for multi-year projects, resulting in a total of $679.5 million available to the Agency in Fiscal Year 2009. Due to the size and scope of many redevelopment projects, revenues are received in one year and expended over the course of two to three (or more) years. Sources of revenues include tax increment, interest and rents, bond proceeds, developer proceeds, and loans and grants to the Agency from the City and other agencies.

The Agency's major source of revenue is tax increment, which is generated from the growth in the assessed value of properties within each project area. The Fiscal Year 2009 budget includes $176.5 million [1] in tax increment revenue. The Agency has statutory and contractual obligations that dictate the use of portions of the tax increment revenue it receives:

- California redevelopment law requires the Agency to set-aside 20% of the tax increment revenue that it receives from each project area for low and moderate income housing projects;
- Some project areas that were adopted prior to 1994 are subject to tax-sharing agreements with the school districts, the County, and other impacted taxing entities within the project area; and
- Project areas adopted since January 1, 1994 are subject to a statutory, three-tiered tax-sharing formula, which for the first ten years results in 20% of tax increment to be allocated to the taxing agencies in those project areas.

[1] The County of San Diego charges an annual fee for costs associated with the accounting of tax increment for each Redevelopment Project Area. The fee is typically deducted by the County from Gross Tax Increment receipts prior to distribution of Tax Increment revenue to the Agency. The agency-wide fee for Fiscal Year 2009 is estimated to be $1.28 Million. The Agency's budget for Tax Increment revenue is net of this fee.

Tax increment to be generated in Fiscal Year 2009 is estimated to reach $176.5 million. A significant amount of this revenue is committed to low and moderate income housing set-asides, tax-sharing agreements/requirements, and debt service and loan repayments. After these obligations are met, net tax increment available to the Agency for public and private development in Fiscal Year 2009 will be $39.8 million.

In addition to tax increment, the Agency budget includes $30 million from the proceeds of tax allocation bonds for CCDC, $1.4 million in bond proceeds for SEDC, and $14.4 million from a line of credit for City Redevelopment projects.

Expenditures

The Agency's combined Fiscal Year 2009 expenditure budget is $320.3 million, with an additional $359.2 million in expenditures utilizing carryover revenue for a total expenditure plan of $679.5 million. Within the FY 2009 Budget of $320.3 million, $164.7 million is allocated to capital projects, $39.9 million is allocated to low and moderate income housing projects, $18.9 million to administration, $29.4 million allocated to tax-sharing agreements/requirements, and $67.4 million to be allocated for debt service, loan repayments, and reserve requirements. Revenues and expenditures for the Agency as a whole are summarized in the following table.

Redevelopment Agency of the City of San Diego
FISCAL YEAR 2009 BUDGET SUMMARY
(In Millions)

	CCDC	SEDC	City Redev	**Agency Total**
REVENUE				
Tax Increment - Non-Housing	$98.6	$5.9	$36.7	**$141.2**
Tax Increment - Housing	$24.6	$1.5	$9.2	**$35.3**
Prior Year Tax Revenues	$41.8	$8.5	$3.5	**$53.8**
Bond, Line of Credit Proceeds	$30.0	$1.4	$14.4	**$45.8**
Revenue from Other Agencies	$4.8	$1.3	$0.1	**$6.2**
Interest/Lease/Notes/Other	$21.1	$0.1	$0.6	**$21.8**
Developer Proceeds	$14.6	$0.0	$0.4	**$15.0**
City Loans/Reloans	$0.0	$1.2	$0.0	**$1.2**
Subtotal FY 2009 Revenue	$235.5	$19.9	$64.9	**$320.3**
Carryover	$258.2	$30.3	$70.7	**$359.2**
Total Revenue	$493.7	$50.2	$135.6	**$679.5**
EXPENDITURES				
Capital Projects	$128.9	$9.1	$26.7	**$164.7**
Low/Mod Housing	$27.4	$2.4	$10.1	**$39.9**
Administration/City Services	$10.6	$3.3	$5.0	**$18.9**
Tax Sharing Payments	$18.0	$0.9	$10.5	**$29.4**
Debt Service/Loan Repayment	$50.6	$4.2	$12.6	**$67.4**
Subtotal FY 2009 Expenditures	$235.5	$19.9	$64.9	**$320.3**
Carryover	$258.2	$30.3	$70.7	**$359.2**
Total Expenditures	$493.7	$50.2	$135.6	**$679.5**

Affordable Housing

Redevelopment Law requires the Agency to set-aside 20% of the tax increment revenue from each project area into a separate fund for low and moderate income housing. The Agency is also required to ensure that at least 15% of all new housing built within a redevelopment project area be restricted to low and moderate income households. In addition, replacement units must be developed, on a one to one basis, in the event any low and moderate income housing units are demolished as part of a redevelopment project activity. The Agency and its corporations work diligently to leverage the 20% set-aside funds with other affordable housing programs and funds.

Low and Moderate Income Housing Fund Policy and Transaction Guidelines

In August 2002, the Redevelopment Agency, Housing Authority and City Council approved a Comprehensive Affordable Housing Strategy, which included the leveraging and aggregating the Redevelopment Agency's Low- and Moderate-Income Housing Funds (LMIHF) to create up to $55 million in affordable housing financing to fund the Affordable Housing Collaborative Program through a Notice of Funding Availability (NOFA). The NOFA process enabled the City's Redevelopment Division, the Centre City Development Corporation, the Southeastern Economic Development Corporation and the San Diego Housing Commission to work together as the Affordable Housing Collaborative.

Although the initial funding of the NOFA as been exhausted, affordable housing development proposals requesting local subsidies in the City of San Diego continue to be submitted through different channels to the Redevelopment Agency and/or the Housing Commission. The Affordable Housing Collaborative continues to meet to review projects seeking funding under the Affordable Housing Opportunity Fund and ensure affordable housing goals are being met by the Agency and the Housing Commission.

To provide consistency among the three branches of the Redevelopment Agency (Redevelopment Division, CCDC and SEDC) and streamline the negotiation and approval process for affordable housing projects funded by the Redevelopment Agency, the Collaborative has recently developed the "**Expenditure of Low and Moderate Income Housing Fund Policy and Transaction Guidelines**" to be utilized in reviewing development proposals and negotiating development agreements. Today's action includes a recommendation for the acceptance of this policy and guidelines by the Agency.

The Guidelines provide basic policy and transaction guidance for development costs, developer fees, annual reserves, sources of funds and other Agency loan terms. Although every project is unique and will require flexibility, the Guidelines will provide clear expectations for all project sponsors. In the event a proposed project does not conform to the Guidelines, Agency staff will delineate such variances in its report to the Agency.

The Guidelines (Refer to Attachment 4) were reviewed and approved by the Collaborative Executive Loan Committee on December 20, 2007, the CCDC Board on January 30, 2008 and the SEDC Board on March 26, 2008. The Collaborative will periodically review these guidelines to ensure consistency with the law and applicability to changing financial/market conditions and will include an updated version of the guidelines in the Agency's annual budget.

Low and Moderate Income Housing Planning and Administrative Expenses

Pursuant to Section 33334.3 (d) of the California Community Redevelopment Law (Health and Safety Code Section 33000 et seq.) it is the intent of the California State Legislature that the amount of money spent for planning and general administration from the Low and Moderate Income Housing Fund not be disproportionate to the amount actually spent for the cost of production. Because of this, it is necessary that the Redevelopment Agency take specific action indicating that it has determined that amounts budgeted for administrative and planning activities within the Agency's Low and Moderate Income Housing Funds are necessary for its plans and are in proportion to the funding to be provided for the production, improvement, and/or preservation of low-and moderate-income housing during Fiscal Year 2009. The consolidated Fiscal Year 2009 budget for administrative and planning activities charged to low-and-moderate-income housing is $4.9 million, representing 3.9% of the $123.9 Million [2] in low and moderate income housing funds available for expenditure.

City Loan Repayments/Reloans

Other funding sources for the Agency include loans from the City. The Fiscal Year 2009 budget proposes the repayment of a Sales Tax loan in the amount of $400,000 from the Southcrest Redevelopment Project Area and the repayment of a Capital Outlay Fund loan in the amount of $815,000 from the Southcrest Redevelopment Project Area. It is recommended and the proposed budget reflects that the Southcrest funds be reloaned to the Gateway Center West Project Area and the Central Imperial Redevelopment Project Area to fund project implementation activities.

Administration

The consolidated Administration Budget of the Agency is $18.9 Million. Administration expenses include staff and non-personnel expenses, the City's General Government Services Billing (GGSB) charge, and non-personnel costs such as insurance, rent, and office supplies. The budget also includes costs for services from various City Departments providing services to the Agency. The Agency reimburses the City for staff services of the Redevelopment Division, and SEDC and CCDC cover a portion of the administration expenses incurred by the City's Redevelopment Division for coordinating Agency-wide activities. CCDC and SEDC also pay their respective portions for work provided on their behalf by various City departments.

The administration budgets of each of the corporations are included with their memoranda to the Agency in the materials attached to this report. Also attached are project budget details, including objectives and accomplishments for each respective entity.

Budget Format

This past year the Office of Independent Budget Analyst (IBA) recommended that City Redevelopment, SEDC, and CCDC develop a consistent budget format. The Agency fully supports this recommendation and undertook a significant effort this past year to standardize the budget format. While there are inherent differences between the entities that require some variation in format, we believe this year's budget is substantially consistent in format. The Agency commits to continue efforts this coming year to further standardize and refine our budget documents.

[2] Includes carryover of $83.9 Million

Debt Repayment Plan

This past year the IBA recommended the Agency develop a plan for debt repayment to the City. The Fiscal Year 2009 budget proposes a repayment of $5 million from the Centre City Redevelopment Project Area. The Agency supports this concept but believes that debt repayment must be analyzed in the context of the term and long-range plan of each respective redevelopment project area. Many project areas are in relatively early stages of their respective project area term. Early debt repayment would require the use of the very funds that Redevelopment Law intended to be invested into the community to accomplish the central purpose of redevelopment, i.e. the elimination of blight. Additionally, such premature debt repayment would directly reduce the project area's eligibility for tax increment revenue in subsequent years of the project term, effectively terminating project area and the benefit of redevelopment in the community. To determine the appropriateness of City debt repayment within the near to mid-term, the Agency intends to conduct a comprehensive analysis in the upcoming fiscal year.

Reorganization Contingency – City Redevelopment

On April 29, 2008 the Agency directed City Redevelopment staff to prepare a specific proposal for reorganization under the Agency-Employee model. The City Redevelopment budget includes $350,000 for costs associated with developing the reorganization proposal and initial transition steps to the proposed model, in the event the proposed organization change is ultimately approved.

FISCAL CONSIDERATIONS:

The Fiscal Year 2009 budget is $320.3 million. The Agency anticipates $359.2 million in carryover funds, for a total expenditure plan of $679.5 million. Within the FY 2009 budget, $164.7 million is allocated to capital projects, $39.9 million is allocated to low and moderate income housing projects, $18.9 million to administration, $29.4 million allocated to tax-sharing agreements/requirements, and $67.4 million is to be appropriated for debt service and loan repayments, and reserve requirements.

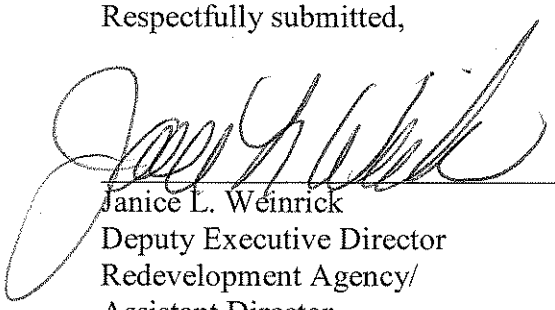
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On March 19, 2008 the Centre City Advisory Committee ("CCAC") unanimously approved the proposed CCDC budget. On March 26, 2008, the CCDC Board voted to approve CCDC Fiscal Year 2009 Budget including recommendations from the Centre City Advisory Committee. On April 23, 2008 the Budget/Finance and Administration Committee approved a modification reflecting a $5 million repayment to the City and a $1.5 million increase to the North Embarcadero Visionary Plan project.

On April 23, 2008 the SEDC Board unanimously approved the SEDC Fiscal Year 2009 Budget.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Residents and businesses within and near the project areas of the Redevelopment Agency will benefit from the enhanced quality of life resulting from the investment of resources in projects, including public improvements, planned for implementation with the resources contained in the proposed budget.

Respectfully submitted,



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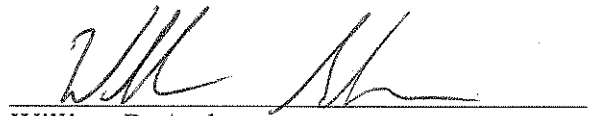

William R. Anderson
Assistant Executive Director,
Redevelopment Agency/
Deputy Chief Operating Officer,
Executive Director of City Planning & Development

ATTACHMENTS

1. CCDC Fiscal Year 2009 Project and Administrative Budget
2. SEDC Fiscal Year 2009 Project and Administrative Budget
3. City Redevelopment Fiscal Year 2009 Budget
4. Expenditure of Low and Moderate Income Housing Fund Policy and Transaction Guidelines