



REPORT TO THE MISSION BAY PARK IMPROVEMENT FUND OVERSIGHT COMMITTEE

DATE ISSUED: July 8, 2016 REPORT NO. 302

ATTENTION: Members of the Mission Bay Park Improvement Fund Oversight Committee

SUBJECT: Consideration of a potential ballot measure to extend Charter Section 55.2 to preserve and prioritize capital investment in Mission Bay Park and Regional Parks for an additional 30 years, provide clarifying language to expedite priority project completion and implement cash management best practices, and modify the disbursement formula to provide additional resources for Balboa Park and other Regional Parks

REQUESTED ACTION:

None; this is information only.

STAFF RECOMMENDATION:

None; this is information only.

BACKGROUND

San Diego voters approved Proposition C (Prop C) on November 4, 2008 with 66.94% of vote. Prop C amended the City Charter by adding Section 55.2. This section designates the use of a portion of the lease revenue from Mission Bay Park for capital improvements in Mission Bay Park and for other Regional Parks. The measure states that Mission Bay Park lease revenue above a threshold amount will be restricted for capital improvements in parks outlined in the charter section. Prop C created the Regional Park(s) Improvement Fund and the Mission Bay Park Improvement Fund and respective Oversight Committees to govern the disbursement of these funds and provide effective oversight. The formula for fund distribution is:

“Twenty-five percent (25%) of the Mission Bay Park Lease Revenues in excess of the threshold amount, or two million five hundred thousand dollars (\$2,500,000) whichever is greater, shall be allocated to the San Diego Regional Parks Improvement Fund that solely benefits the San Diego Regional Parks and seventy-five percent (75%) of the Mission Bay Park Lease Revenues over the threshold amount, or the remainder of those revenues if less than 75% is available after the allocation to the San Diego Regional Parks Improvement”

Beginning fiscal year 2010 and ending fiscal year 2014, the threshold amount was \$23 million. As of Fiscal Year 2015, \$20 million is the threshold amount and it will remain \$20 million for the duration of the measure which currently expire in 2039. Lease revenues over the past three years have been averaging around \$30 million annually. For example, given the change to the threshold (from \$23 million to \$20 million) in Fiscal Year 2015, an allocation of \$20 million has been transferred to the City's General Fund, and the remaining approximately \$10 million has been transferred to the Regional Park Improvement Fund and the Mission Bay Park Improvement Fund. Of the \$10 million, 25% or \$2.5 million is transferred to the Regional Park Improvement Fund. The remaining 75% or \$7.5 million is transferred to the Mission Bay Park Improvement Fund.

DISCUSSION

A proposed ballot measure to modify Charter Section 55.2 as related to the Regional Park Improvement Fund and Mission Bay Park Improvement Fund would achieve the following goals:

- Preserve and prioritize capital investment in Mission Bay Park and Regional Parks for an additional 30 years
- Provide clarifying language to expedite priority project completion and implement cash management best practices
- Modify the disbursement formula to provide additional resources for Balboa Park and other Regional Parks

Extension of Prop C to Expire in 2069

The proposed ballot language seeks to extend Proposition C to ensure continued capital investment in Mission Bay Park and other Regional Parks. An extension will also allow for the lease revenues to be leveraged for capital projects. Currently, Proposition C will expire in 2039. Extending the measure will provide sufficient repayment capacity from lease revenue to bond for a 30-year period. Without an extension, capital investments would be required to be cash financed on a pay-as-you-go basis or, size a bond issue at less than the customary term of 30 years.

Prop C includes specific language stating: "This Section shall take effect and be in force on July 1, 2009, and will expire on June 30, 2039. Before the expiration of this Section, the City Council shall place on the ballot no later than the last regularly scheduled election prior to June 30, 2039 a measure to amend the Charter to extend the effect of this Section for an additional 30 years."

The proposed action to extend the initiative is consistent with the intent of voters. By moving forward with the extension at this time, it will respond to the requirement to place an extension before voters to consider an extension of the measure and provide sufficient time to develop a comprehensive financing plan to fund capital needs for Mission Bay Park and other Regional Parks.

Clarifying Language to Expedite Priority Project Completion, Implement Cash Management Best Practices

Section 55.2(c)(1)(A-G) lists the capital improvement projects in the priority order in which they are to be completed in the Mission Bay Park Improvement Zone. Projects include efforts “to restore wetlands, wildlife habitat, and other environmental assets within the Improvement Zone; to preserve the beneficial uses of the Improvement Zone including, but not limited to, water quality, boating, swimming, fishing, and picnicking by maintaining navigable waters and eliminating navigational hazards; to restore embankments and other erosion control features; and to improve the conditions of the Improvement Zone for the benefit and enjoyment of residents and visitors, consistent with the Mission Bay Park Master Plan.”

Section 55.2(c)(2) requires a project on the priority list to be budgeted and approved by the City Council, and a funding plan adopted for it before work may begin on a subsequent priority project provided construction of a lesser priority does not unreasonably delay, prolong, or preclude completion of a greater priority.

In the interest of proceeding with the identified projects as expeditiously as possible, the Park and Recreation Department has begun work on creating an initial ten-year implementation plan that pursues multiple projects simultaneously while conforming to the sequencing requirements of the Charter.

However, many of the projects contained on the priority list are such that long lead times will be required before construction can begin. Considerations regarding precise scopes of work, extensive environmental analysis, and multiple outside regulatory agency approvals contribute to an already-complex permitting process required for these types of capital projects.

Resource agency staff is aware of the overall Program prescribed by Charter Section 55.2 and is asking for a more comprehensive environmental review of how each of the priority projects relate to each other in an effort to understand the cumulative impacts of the priority list as a whole. This effort will require pursuing a Programmatic Environmental Impact Report (EIR) that considers the priority list as a series of interrelated projects. This effort is particularly relevant for the first four priorities prescribed in Charter Section 55.2, since they will require extensive environmental analysis.

It is also important to note that several of the projects within the first four priorities are located in areas that are currently the subject of Master Plan revisions, specifically Fiesta Island and DeAnza Cove and therefore, cannot be initiated until the adoption of those plans and the conclusion of the corresponding environmental documents.

Due to the rate of lease revenue received from Mission Bay Park, the Improvement Fund realizes substantial revenue that is estimated at approximately \$6.1 million for Fiscal Year 2016. The Mayor’s Five-Year Financial Outlook (Fiscal Year 2017 to 2021) anticipates this revenue to increase during future years in the projection period.

Fiscal Year	Funding	Fiscal Year	Funding
2010	\$0	2018	\$7.7 million estimated
2011	\$0	2019	\$8.2 million estimated
2012	\$2.4 million received	2020	\$8.6 million estimated
2013	\$5.4 million received	2021	\$8.5 million estimated
2014	\$4.3 million received	2022	\$8.5 million estimated
2015	\$7.0 million received	2023	\$8.5 million estimated
2016	\$6.1 million estimated	2024	\$8.5 million estimated
2017	\$7.2 million estimated	2025	\$8.5 million estimated

To ensure these funds are maximally deployed to several projects concurrently and in keeping with best cash management practices the proposed extension of Prop C provides clarifying language that staff believes will help with a timely and more efficient execution of the priority projects. The numbers reflected here are annual revenues and do not reflect carry forward from previous fiscal years.

As of May 10, 2016, there was a cash balance of \$18,961,118, with \$12,647,859 not currently budgeted in projects and available to spend. The addition of clarifying language would allow for more projects to be initiated concurrently, reduce the incidence of high cash accruals in the Mission Bay Park Improvement Fund, and expedite the completion of much needed deferred capital maintenance projects such as playgrounds and comfort stations that members of the public frequently request.

Status of Charter Section 55.2 Priority Projects

- **Priority 1: Dredging**
 The top priority project listed in Charter Section 55.2(c)(1) is the restoration of navigable waters by dredging those areas deemed to be hazardous. The project is considered fully funded with \$7,849,147 allocated. It is currently budgeted as Project AGF00004, Sublet B10163. The scope of work for dredging includes key navigational routes within Mission Bay, including Sail Bay.

Staff began work on this project in 2012 with a consultant study and a series of planning meetings. The project will directly impact 30 acres of eelgrass habitat, which must be mitigated at a 1.2:1 ratio. Overall, the project represents the largest eelgrass habitat impact ever proposed for a dredging project on the West Coast. In fact, the majority of the implementation cost for this project will be for eelgrass mitigation and monitoring.

Even without a Program EIR, staff anticipates that the dredging project requires environmental permits in accordance with the California Environmental Quality Act (CEQA). The Program EIR would replace a project-level EIR for the dredging project. Once the Program EIR that covers the dredging project is complete, Public Works staff would advertise and award a construction contract. Staff anticipates that dredging and eelgrass mitigation would commence in 2018.

- **Priority 2: Wetland Expansion and Water Quality Improvements**

The proposed ten-year funding plan proposes to move forward on initial studies and design of the Tecolote Creek wetland, the Fiesta Island causeway tidal culverts, and the wetland near the Former Visitor's Information Center because these projects would not be impacted by ongoing planning efforts associated with Fiesta Island and DeAnza. The most costly of the Priority 2 projects – the Rose Creek Wetlands project – is directly linked to the DeAnza Special Study, and design could not begin until the study is completed in Fiscal Year 2019.

- **Priority 3: Restoration of Shoreline Treatments**

Staff proposes to initiate a comprehensive study to fully analyze those areas within the Improvement Zone that require shoreline stabilization and/or restoration. As such, the ten-year plan proposes a \$250,000 allocation in CIP Fiscal Year 2017 for consultant evaluation and project scoping. Construction would be scheduled and funded for CIP Fiscal Year 2020, assuming the study would require some level of permitting and design beyond that provided in the Program EIR. Such a study should also include project-specific cost estimates and phasing proposals.

- **Priority 4: Expansion of Endangered or Threatened Species Preserves**

The fourth priority addresses “expansion of endangered or threatened species preserves and upland habitats on North Fiesta Island and along the levee of the San Diego River floodway as identified in the Mission Bay Park Master Plan.” The ten-year plan proposes a \$100,000 allocation in CIP Fiscal Year 2017 for consultant evaluation and project scoping, perhaps in coordination with the GDP effort. Construction would be scheduled and funded for CIP Fiscal Year 2020, assuming the study would require some level of permitting and design. Such a study should also include cost estimates and phasing proposals.

Proposal to Combine Priorities 5, 6, 7 to Expedite Completion of Multiple Projects

The final priority projects outlined in Charter Section 55.2 all refer to critical deferred maintenance capital projects within the Improvement Zone that need to be completed including completion of bicycle and pedestrian paths and bridges as identified in the Mission Bay Park Master Plan, installation of sustainable lighting in

the Improvement Zone, installation of signage and landscaping at points of entry to MBP and South Shores, and the repair, resurfacing and restriping of parking lots. Completion of the North Ocean Beach Gateway pathway as well as renovating the Santa Clara and Robb Field Recreation Centers and Robb Field's Howard Hall have also been added to the projects list.

By combing the three final priorities, it will allow for more efficient phasing of projects, allow for multiple projects to be initiated concurrently and provide for greater public input in the range of public improvements to be selected by the Mission Bay Oversight Committee.

For example, the sixth priority project is to restore the seawall bulkhead located along Oceanfront Walk. This will be a multi-year effort due to constraints, such as a summer construction moratorium in Mission Beach between Memorial Day and Labor Day that will impact the project timeline. It would also be impractical to replace all sections of the bulkhead at one time. To minimize disruptions to the community and visitors, the bulkhead must be replaced in incremental portions over the span of years. The current language in Charter Section 55.2 would make it challenging to begin another project while the restoration of the bulkhead is constructed in phases.

Additional Resources for Regional Parks such as Balboa Park

The proposal includes a modification to the formula that defines the fund disbursement to allow for additional resources to be made available for Balboa Park and other regional parks. The formula would change, so that 35% or \$3.5 million, whichever is higher would be disbursed to the Regional Parks Improvement Fund prior to the disbursement to the Mission Bay Park Improvement Fund. This is compared to the current formula which is 25% or \$2.5 million, whichever is greater, is disbursed to the Regional Parks Fund. An estimated \$3.5 million annually (an approximate increase of \$1.0 million from the \$2.5 million received annually) would allow for a \$44 million regional park investment should that revenue stream be leveraged with the issuance of a 30-year bond. Staff has carefully analyzed the remaining priority projects outlined in Charter Section 55.2 and feel confident that none of these projects will be delayed or impacted with this change in the disbursement formula.

Conclusion

The proposed extension to Charter Section 55.2 will guarantee a long term funding source for Mission Bay Park, Balboa Park and other Regional Parks, provide the ability to optimally finance long-term improvements, and will more efficiently pair project expenditures with annual cash flows preventing the accrual of large cash balances. Because of the more efficient cash management practices, there are sufficient resources to fund all of the priority projects outlined in Charter Section 55.2 without any delay and add additional resources to the cultural and historic heart of the City, Balboa Park and other regional parks.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal # 2: Work in partnership with all of our communities to achieve safe and livable neighborhoods

Objective #3: Invest in infrastructure

FISCAL CONSIDERATIONS:

Implementation of this ballot measure would enhance cash management and would expedite project delivery.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable): N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

On June 25, 2008, the Rules Committee voted to refer then-proposed City Charter Section 55.2 to the full City Council for consideration.

On July 28, 2008, the City Council voted to place then-proposed City Charter Section 55.2 on the November 2008 ballot.

On June 30, 2016, the Infrastructure Committee voted to refer the proposed ballot initiative to revise City Charter Section 55.2 to the full City Council for consideration.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

During the month of July, Staff will present this proposed ballot initiative to the Balboa Park Committee, Mission Bay Park Committee, and Park and Recreation Board. The latter two will receive this information in their role as the oversight committees for the two improvement funds in accordance with Charter Section 55.2.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The extension of City Charter Section 55.2 will ensure the preservation of San Diego's beloved Regional Parks by improving project cash management, modifying the allocation formula, and allow for potential bonding of Mission Bay lease revenue.

Respectfully Submitted,



Andrew Field
Assistant Director
Park and Recreation Department

Attachment:

1. Proposed Amendments to Charter Section 55.2

CITY CHARTER SECTION 55.2**Section 55.2: Mission Bay Park and Regional Parks Improvement Funds**

(a) For the purpose of this Section, the following definitions shall apply and the words shall appear in italics:

(1) *Capital Improvement* means physical assets, constructed or purchased, or the restoration of some aspect of a physical or natural asset that will increase its useful life by one year or more or which constitutes an environmental improvement of a natural asset.

(2) *Mission Bay Baseline Chart* shall be defined as the Mission Bay dredging plans on file with the City Clerk as Document No. 00-19776. It shall serve as the baseline for depths for navigable waters within Mission Bay. Depths may be increased or decreased for specific areas within Mission Bay only if, after review of these areas by the San Diego Fire Department or the *Mission Bay Park Improvement Fund Oversight Committee*, it is found that either the original depth no longer supports or ensures safe navigation, is inconsistent with the *Mission Bay Park Master Plan*, or needs to be modified in order to create sustainable shorelines. Any changes must be adopted by ordinance of the City Council and shall act as amendments to the original dredging plans.

(3) *Mission Bay Park* means the area described in the Mission Bay Park Record of Survey 16891, filed on February 28, 2001, in the Office of the County Recorder as File No. 2001-0113422.

(4) *Mission Bay Park Improvement Zone* means those areas encompassed within the boundaries of *Mission Bay Park*, Oceanfront Walk from the Mission Bay jetty to Crystal Pier and the adjoining seawall, coastal parks and ocean beaches contiguous thereto, Rose Creek from its terminus in Mission Bay to the southern end of the Santa Fe Road flood control channel, Tecolote Creek from its terminus in Mission Bay to the western end of the Tecolote Creek flood control channel and the San Diego River as it passes through the boundaries of *Mission Bay Park* as described herein. The boundaries of the San Diego River, Rose Creek and Tecolote Creek shall be the width of those waterways to the nearest property line.

(5) *Mission Bay Park Improvement Fund* means a separate interest bearing monetary fund maintained by the City of San Diego to receive and spend the *Mission Bay Park Lease Revenues* identified herein for the benefit of the *Mission Bay Park Improvement Zone*.

(6) *Mission Bay Park Improvement Fund Oversight Committee* means the committee determined by ordinance of the City Council to carry out the oversight responsibilities described herein.

(7) *Mission Bay Park Lease Revenues* means all revenues collected by the City of San Diego from commercial and non-profit sources within *Mission Bay Park*, including but not limited to all monetary consideration received under leases of city owned property within *Mission Bay Park*, as well as revenue collected from contracts for concessions or any other revenues collected for the use of city owned property within *Mission Bay Park*. The term does not include revenue from the Mission Bay Golf Course, unless privately leased; mooring fees; any revenues from taxes including

but not limited to Transient Occupancy Taxes, sales taxes, possessory interest taxes, property taxes; or permit fees such as park and recreation fees or special event fees to the extent those fees are levied to recover actual costs incurred by the City of San Diego.

(8) *Mission Bay Park Master Plan* means the Master Plan adopted by the City Council for Mission Bay Park in 1994, the Natural Resources Management Plan, and any amendments or updates that are subsequently adopted by the City Council or any such similar replacement plan that may be subsequently adopted by the City Council. For purposes of this Section, the definition shall also include adopted plans for areas located within the *Mission Bay Park Improvement Zone*.

(9) *San Diego Regional Parks* means those parks that serve regional residents and/or visitor populations as determined by ordinance of the City Council. *San Diego Regional Parks* shall initially include Chollas Lake Park, Balboa Park, Mission Trails Regional Park, Otay River Valley Park, Presidio Park, San Diego River Park, open space parks, and coastal beaches along with coastal parks contiguous thereto. For the purposes of this Section, this definition shall specifically exclude the *Mission Bay Park Improvement Zone*.

(10) *San Diego Regional Parks Improvement Fund* means a separate interest bearing monetary fund maintained by the City of San Diego to receive and spend the *Mission Bay Park Lease Revenues* identified herein for the benefit of the *San Diego Regional Parks*.

(11) *San Diego Regional Parks Improvement Fund Oversight Committee* means the committee determined by ordinance of the City Council to carry out the oversight responsibilities described herein.

(b) Subject to the City of San Diego's State law obligations as a trustee of tidelands within Mission Bay Park, Mission Bay Park Lease Revenues up to the threshold amount in each fiscal year shall be deposited into the San Diego General Fund and may be used for any municipal purpose, including but not limited to, police, fire, streets, sewers, water delivery, roads, bridges, and operation of parks. All *Mission Bay Park Lease Revenues* in excess of the threshold amount shall be allocated in the City of San Diego budget to two distinct funds. ~~Twenty~~Thirty-five percent (~~23~~35%) of the *Mission Bay Park Lease Revenues* in excess of the threshold amount, or ~~two~~three million five hundred thousand dollars (\$~~23~~35,500,000) whichever is greater, shall be allocated to the *San Diego Regional Parks Improvement Fund* that solely benefits the *San Diego Regional Parks* and ~~seventy~~sixty-five percent (~~76~~65%) of the *Mission Bay Park Lease Revenues* over the threshold amount, or the remainder of those revenues if less than ~~76~~65% is available after the allocation to the *San Diego Regional Parks Improvement Fund*, shall be allocated to the *Mission Bay Park Improvement Fund* that solely benefits the *Mission Bay Park Improvement Zone*. The threshold amount shall be \$23 million beginning fiscal year 2010 and ending fiscal year 2014. The threshold amount shall be \$20 million beginning fiscal year 2015 and shall remain \$20 million thereafter.

(c) Funds in the *Mission Bay Park Improvement Fund* may be expended only in the *Mission Bay Park Improvement Zone*, to restore wetlands, wildlife habitat, and other environmental assets within the *Mission Bay Park Improvement Zone*; to preserve the beneficial uses of the *Mission Bay Park Improvement Zone* including, but not limited to, water quality, boating, swimming, fishing, and picnicking by maintaining navigable waters and eliminating navigational hazards; to restore embankments and other erosion control features; and to improve the conditions of the *Mission Bay*

Park Improvement Zone for the benefit and enjoyment of residents and visitors, consistent with the *Mission Bay Park Master Plan*.

(1) To achieve these goals, all of the following identified priorities are intended to be authorized, ~~funded, and completed~~ have a funding plan adopted by City Council, and proceed to completion in the order provided below, subject to section (c)(2) below authorizing projects to proceed concurrently:

(A) Restoration of navigable waters within *Mission Bay Park* and elimination of navigational hazards. When depth conditions no longer support and ensure safe navigation, those areas that pose a danger or impede the passage of watercraft shall be dredged in accordance with the *Mission Bay Baseline Chart*.

(B) Wetland expansion and water quality improvements and the protection and expansion of eelgrass beds as identified in the *Mission Bay Park Master Plan*.

(C) Restoration of shoreline treatments within the *Mission Bay Park Improvement Zone* including restoration of beach sand and stabilization of erosion control features.

(D) Expansion of endangered or threatened species preserves and upland habitats on North Fiesta Island and along the levee of the San Diego River floodway as identified in the *Mission Bay Park Master Plan*.

(E) Deferred maintenance projects that are also *Capital Improvements* within the *Mission Bay Park Improvement Zone* as may be recommended by the *Mission Bay Park Improvement Fund Oversight Committee* and approved by the City Council such as, but not limited to, ~~C~~completion of bicycle and pedestrian paths and bridges as identified in the *Mission Bay Park Master Plan*, installation of sustainable lighting in the *Mission Bay Park Improvement Zone*, installation of signage and landscaping at points of entry to *Mission Bay Park* and the South Shores, and the repair, resurfacing and restriping of parking lots within the *Mission Bay Park Improvement Zone*, the repair of playgrounds and comfort stations, and the restoration of the seawall and bulkhead on Oceanfront Walk to a condition no less than the quality of restoration previously performed in 1998 from Thomas Street to Pacific Beach Drive or to conditions as may be required by historic standards.

(F) ~~Restoration of the seawall bulkhead on Oceanfront Walk to a condition no less than the quality of restoration previously performed in 1998 from Thomas Street to Pacific Beach Drive or to conditions as may be required by historic standards.~~

(G) ~~Deferred maintenance that are also *Capital Improvements* hereunder on existing assets within the *Mission Bay Improvement Zone* as may be recommended by the *Mission Bay Park Improvement Fund Oversight Committee* and approved by the City Council.~~

(2) After ~~each~~ a priority project identified in (c)(1)(A-~~E~~) above has been ~~budgeted and approved by the City Council and authorized and has~~ a funding plan adopted for it by City Council, funds may be committed to and expended on a subsequent project of a lesser priority and construction of a subsequent project may proceed concurrently with a greater priority project provided construction of a lesser priority project does not ~~unreasonably delay, prolong, or preclude~~ completion of a greater priority project. ~~To the extent funds become available from grants or other sources for a lower priority before a higher priority has been completed, or in the event of substantial delay in~~

proceeding with a higher priority, funds may be committed to the next lower priority in the order set forth in (c)(1)(A-G), provided such expenditure of a lesser priority does not unreasonably delay, prolong, or preclude completion of a greater priority. The City Council shall be required to make findings that completion of a ~~higher~~greater priority project will not be ~~unreasonably delayed, prolonged, or precluded~~ by expending funds on a ~~lower~~lesser priority project before approving said expenditure.

(3) Once the projects identified in (c)(1)(A-G~~E~~) ~~have been fully budgeted~~an adopted funding plan or a project is completed, additional projects shall be prioritized and funded only for *Capital Improvements* as identified in the *Mission Bay Park Master Plan*, recommended by the *Mission Bay Park Improvement Fund Oversight Committee*, and approved by the City Council.

(4) To the extent items (c)(1)(A-G~~E~~) ~~that have been completed herein~~require additional funding or are later in need of additional *Capital Improvements*, then those items shall again have priority over other *Capital Improvements* only if approved by the City Council.

(5) Except as may be specifically authorized above in this subsection, funds in the *Mission Bay Park Improvement Fund* may not be expended for commercial enterprises or improvements of leasehold interests; for any costs associated with utilities, including, but not limited to, water and sewage; or for roads, vehicle bridges, or vehicular ramps; or on costs that cannot be capitalized; or on daily, weekly, monthly, or annual upkeep of the *Mission Bay Park Improvement Zone* and there shall be no expenditure for contracted labor or services or for city employee salaries, pensions or benefits unless those expenses can be capitalized, and only then at the then standard rates used by the City of San Diego for all other capital improvement projects.

(d) Funds in the *San Diego Regional Parks Improvement Fund* may be expended only for non-commercial public *Capital Improvements* for the *San Diego Regional Parks* and only for park uses. Funds in the *San Diego Regional Parks Improvement Fund* may not be expended for commercial enterprises or improvements of leasehold interests; for any costs associated with utilities, including, but not limited to, water and sewage; or for roads, vehicle bridges, or vehicular ramps; or on daily, weekly, monthly, or annual upkeep of the *San Diego Regional Parks*. Priority for *Capital Improvements* hereunder shall be recommended by the *San Diego Regional Parks Improvement Fund Oversight Committee*, in accordance with the master plans for each of the *San Diego Regional Parks*, and approved by the City Council.

(e) The *Mission Bay Park Improvement Fund Oversight Committee* and the *San Diego Regional Parks Improvement Fund Oversight Committee* shall meet at least quarterly to audit and review the implementation of this Charter Section, to recommend priorities for expenditures and *Capital Improvements* hereunder in accordance with the master plans for each of the *San Diego Regional Parks* or with the *Mission Bay Park Master Plan* or within the priorities identified in (c)(1)(A-G~~E~~), as applicable; and to verify that the appropriate funds are collected, segregated, retained and allocated according to the intent of this Section, and spent as prioritized in this Section and consistent herewith.

The San Diego City Auditor, in cooperation with each committee, shall establish and oversee a mechanism to ensure public accountability by effectively reporting and communicating the extent and nature of revenues, expenses and improvements generated hereunder and compliance with the

requirements outlined herein. This shall include, at a minimum, an annual audit report to the Mayor, City Council and public. Each report shall, at a minimum, contain a complete accounting of all revenues received, the amount and nature of all expenditures, a report as to whether in each committee's view the expenditures have been consistent with the priorities and provisions hereof, whether the City of San Diego has complied with sections (c)~~(2)~~, (d), (f), (g) and (h). In the event that either committee finds that there has been a violation of this Charter Section by the City of San Diego, it should set forth the alleged violation in a written communication to the City Manager and members of the San Diego City Council. If the alleged violation is not resolved to the satisfaction of the aggrieved committee within 30 days, the San Diego City Council shall docket an action item for a public meeting of the San Diego City Council within 60 days. If evidence presented to the San Diego City Council by the aggrieved committee establishes a violation of this Section, the San Diego City Council shall forthwith cure the violation including but not limited to the restoration of inappropriately expended funds.

(f) The City of San Diego shall take all steps necessary to ensure the collection and retention of all *Mission Bay Park Lease Revenues* for purposes described herein and to utilize those revenues only for the purposes described herein and consistent with the priorities and intentions described herein. The City of San Diego may issue bonds, notes or other obligations to expedite the *Capital Improvements* contemplated herein, utilizing the revenue stream from *Mission Bay Park Lease Revenues* designated herein.

(g) The annual budgets allocated for park operations and maintenance in the *Mission Bay Park Improvement Zone* and the *San Diego Regional Parks* shall not be reduced at a greater rate or increased at a lesser rate relative to the overall annual budget of park and recreation as a result of monies available hereunder.

(h) The City of San Diego is encouraged to seek other sources of funding for the purposes of improving the *Mission Bay Park Improvement Zone* and the *San Diego Regional Parks*, including but not limited to grant funding from other governmental agencies, private individuals, or foundations. In the event the City of San Diego receives any such additional funds, they shall be in addition to, and shall not offset or reduce funds dedicated to the *Mission Bay Park Improvement Fund* or *San Diego Regional Parks Fund* under this Section.

(i) Nothing contained herein shall prevent the City of San Diego from spending funds in excess of the *Mission Bay Park Improvement Fund* or *San Diego Regional Parks Fund* for the purposes of improving the *Mission Bay Park Improvement Zone* or the *San Diego Regional Parks*.

(j) This Section shall take effect and be in force on July 1, 2009, and will expire on June 30, 20369. Before the expiration of this Section, the City Council shall place on the ballot no later than the last regularly scheduled election prior to June 30, 20369 a measure to amend the Charter to extend the effect of this Section for an additional 30 years.

(k) In the event of a conflict between any provision of Section 55.2 and any other provision of this Charter or the Municipal Code, Section 55.2 shall govern.

(Addition voted 11-04-2008; effective 12-16-2008.)



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 8, 2016

IBA Report Number: 16-17

City Council Docket Date: July 11, 2016

Item Number: 157

Proposed Ballot Measure to Extend and Modify City Charter Section 55.2

OVERVIEW

On June 30, 2016, the Mayor's Office presented a potential ballot measure to the City Council's Infrastructure Committee that proposes to extend and modify City Charter Section 55.2 "Mission Bay Park and Regional Park Improvement Funds". Following voter approval of Proposition C in 2008, Section 55.2 was added to the Charter to address the allocation and use of revenues generated from commercial leases in Mission Bay Park. The Mayor's proposed ballot measure includes the following key amendments to Charter Section 55.2:

- Extending the requirements of Charter Section 55.2 for an additional 30 years from the original expiration date of June 30, 2039 to an expiration date of June 30, 2069;
- Modifying existing language to provide a framework for pursuing multiple capital improvement projects simultaneously within the Mission Bay Improvement Fund; and
- Modifying the distribution formula for Mission Bay Park lease revenues in excess of \$20 million to the Mission Bay Park Improvement Fund (MBPIF) and the Regional Parks Improvement Fund (RPIF)¹.

At the Infrastructure Committee meeting, our Office offered to provide an analysis of the proposal, as well as potential adjustments and options for the ballot measure.

In this report, our Office provides background on usage requirements for Mission Bay Park lease revenues, a description of the Mayor's proposed ballot measure, and recommendations for Council consideration, including those discussed at the Infrastructure Committee meeting. Specifically, we

¹ Mission Bay Park lease revenues in excess of the established revenue threshold of \$20.0 million shall be allocated to the MBPIF and the RPIF at a distribution ratio described in City Charter Section 55.2.

OFFICE OF THE INDEPENDENT BUDGET ANALYST

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provide a recommendation for a shorter extension period than recommended by the Mayor and a proposal allowing for growth of the General Fund allocation over time as was discussed at the Infrastructure Committee meeting.

FISCAL/POLICY DISCUSSION

Background

In October 2002, the City Council adopted Ordinance No. 19113 which added a section to the San Diego Municipal Code that established a reliable funding source to address needed capital improvements within Mission Bay Park and other Regional Parks. The main components of the new section included: 1) the creation of the MBPIF and the RPIF as new separate funds; 2) the determination that any lease revenues collected from commercial leases within Mission Bay Park in excess of \$20.0 million on an annual basis would be disbursed at 50% to the General Fund and 25% to each of the MBPIF and the RPIF² with an annual cap of \$2.5 million to each of the funds; and 3) the ability of the City Manager (Mayor) to suspend compliance with these requirements if anticipated revenues in any fiscal year were projected to be insufficient to fund existing City services.

Table 1 provides the total lease revenues from Mission Bay Park and the distributions to the General Fund, the MBPIF, and the RPIF from FY 2005 to FY 2009. The MBPIF and RPIF received the maximum amount (\$2.5 million) from the excess lease revenues in FY 2008 and FY 2009.

Table 1

Fiscal Year	Total Lease Revenues	Distributions		
		General Fund	MBPIF	RPIF
2005	\$23,622,000	\$23,622,000	\$ -	\$ -
2006	\$26,978,000	\$26,978,000	\$ -	\$ -
2007	\$27,858,000	\$25,658,000	\$1,100,000	\$1,100,000
2008	\$27,902,000	\$22,902,000	\$2,500,000	\$2,500,000
2009	\$28,049,000	\$23,049,000	\$2,500,000	\$2,500,000

In July 2008, then-Councilmembers Kevin Faulconer and Donna Frye presented to the City Council a proposal for a ballot measure amending the City Charter (adding Section 55.2) to modify the distribution of the Mission Bay Park lease revenues exceeding the set revenue threshold and lifting the distribution cap, potentially allowing the amounts directed to the MBPIF and RPIF to exceed \$2.5 million annually. The proposal was to allow the funds directed to the MBPIF and RPIF to grow as the Mission Bay Park lease revenues grew on an annual basis.

In November 2008, San Diego voters approved Proposition C (adding Charter Section 55.2) which:

² Funds distributed to the RPIF from the excess Mission Bay Park lease revenues were to be equitably distributed among the identified regional parks.

- Established the Mission Bay Park lease revenue threshold to be distributed to the General Fund at \$23.0 million annually from FY 2010 to FY 2014, and reduced the threshold to \$20.0 million annually from FY 2015 to FY 2039. Any lease revenues in excess of the established threshold would be distributed to the RPIF and MBPIF
- Distributed excess lease revenues so that the RPIF would receive the greater of \$2.5 million or 25% of the annual excess lease revenues and the MBPIF would receive 75% of the annual excess lease revenues or the remainder of those revenues if less than 75% is available after distribution to the RPIF
- Established the San Diego Regional Parks Improvement Fund Oversight Committee and the Mission Bay Park Improvement Fund Oversight Committee, that are tasked with recommending priorities for expenditures from the respective funds
- Defined and prioritized capital improvement categories to be funded from the MBPIF
- Established a start date of July 1, 2009, with an effective period of 30 years (expiration date of June 30, 2039), and a requirement for a ballot measure to extend Section 55.2 for an additional thirty years prior to the expiration date in FY 2039

Table 2 provides the total lease revenues from Mission Bay Park and the distributions to the General Fund, MBPIF, and RPIF from FY 2010 to FY 2016. The reduced General Fund distribution contributes to the increased distribution to the MBPIF.

Table 2

Fiscal Year	Total Lease Revenues	Distributions		
		General Fund	MBPIF	RPIF
2010	\$23,984,000	\$23,000,000	\$ -	\$ 984,000
2011	\$24,696,000	\$23,000,000	\$ -	\$ 1,696,000
2012	\$27,949,000	\$23,000,000	\$2,449,000	\$2,500,000
2013	\$30,857,000	\$23,000,000	\$5,357,000	\$2,500,000
2014	\$29,760,000	\$23,000,000	\$4,260,000	\$2,500,000
2015	\$29,526,000	\$20,000,000	\$7,026,000	\$2,500,000
2016	\$28,657,723	\$20,000,000	\$6,157,723	\$2,500,000

As shown in Table 2, the RPIF began receiving \$2.5 million in FY 2012 in accordance with Charter Section 55.2. The MBPIF, however, has yet to receive 75% of lease revenue in excess of \$20 million. In order for the MBPIF to hit the 75% allocation amount, lease revenue in excess of the \$20 million threshold would need to equal or exceed \$10 million, or alternatively stated, total Mission Bay Park lease revenue would need to equal or exceed \$30 million.

Proposed Ballot Measure

On July 11, 2016, the Mayor’s Office will request the City Council consider a potential November 2016 ballot measure to modify Section 55.2 of the City Charter. The proposed amendments include: 1) an adjustment to the current distribution of lease revenues exceeding the set annual threshold of \$20.0 million; 2) an adjustment to language within Section 55.2 as it relates to engaging capital projects within the MBPIF; 3) inclusion of language to prioritize the City’s compliance with State law as it relates to the City’s obligations as a tidelands trustee; and 4) an extension of Charter Section 55.2 for an additional 30 years beyond the current expiration date of June 30, 2039. These notable adjustments are briefly discussed in the following section.

Modification to Distribution Formula

The proposed ballot measure would adjust the current distribution formula to provide additional resources for Balboa Park and other regional parks. The proposed ballot measure would increase the distribution percentages to the RPIF from 25% to 35% of the excess lease revenues or \$3.5 million, whichever is greater, and require a corresponding reduction in the distribution percentage to the MBPIF from 75% to 65% on an annual basis.

Flexibility for Initiating Capital Projects within the MBPIF

Charter Section 55.2 provides a priority list of capital project categories to be addressed with funds from the MBPIF. The Section establishes seven capital priority categories, ranging from restoration (dredging) of Mission Bay's navigable waters (Priority 1) to deferred maintenance on existing assets within Mission Bay Park (Priority 7). Staff considers the current capital prioritization language to be restrictive as projects within a higher priority capital category need to be authorized, funded, and completed prior to prioritizing and funding a capital project within a lower priority capital category. Should a significant delay be identified for a higher priority project and a determination be made that proceeding with a lower priority project would not impede or delay the completion of a higher priority project, the City Council could make findings to proceed and fund a lower priority capital project.

The proposed ballot measure modifies the current language to assist in expediting use of funds within the MBPIF for capital projects. The proposed modifications would require a City Council approved funding plan be in place prior to proceeding with capital projects. The funding plan would specify how to best proceed with multiple projects across multiple priority categories concurrently, without jeopardizing the completion of the higher priority projects. The proposed language is aimed at providing flexibility to proceed with multiple projects, while complying with the priorities set in Charter Section 55.2. Additionally, the proposed ballot language includes the consolidation of multiple lower priority capital categories into one larger capital improvement category in order to assist the City in addressing various capital projects and deferred maintenance.

As stated in Report to City Council No. 16-066 (Staff Report), as of May 10, 2016, there was a cash balance of approximately \$19.0 million in the MBPIF, with approximately \$12.6 million not currently budgeted in projects and available to spend. Charter Section 55.2 does not establish a capital priority list for the usage of funds within the RPIF. Per the Park and Recreation Department, all funds in the RPIF are currently budgeted for projects.

Compliance with State Law Tidelands Obligations

In a report to the Mayor and City Council dated June 24, 2016, the Office of the City Attorney identified "potentially incompatible obligations" associated with requirements of Charter Section 55.2 and those imposed on the City as a tidelands trustee. State law requires the City to use all revenues received from tidelands trust properties (hotels, sports clubs, etc.) for the support and operation of the tidelands. In reviewing the proposed amendment to Charter section 55.2, the City Attorney notes the proposed amendment has the potential to direct tidelands revenues away from trust purposes to regional parks and this could potentially leave the City with insufficient funds to

meet its tidelands expenditure obligations. In order to deal with this possibility, the City Attorney recommends that the proposed amendment include language allowing the City to alternatively allocate lease revenues, if necessary, for tidelands purposes in accordance with State law. Staff included language in section (b) of the proposed amendment to Charter section 55.2 to incorporate the City Attorney's recommendation.

The IBA reviewed the City's annual revenue and expense statements for Mission Bay and Coastal Tidelands from FY 2013 through FY 2015. Although tideland revenues exceeded expenditures by approximately \$3.5 million over the three-year period, the City was able to fulfill its tideland expenditure obligations by using an accrued credit balance for past tideland expenditures in excess of revenues received. It should be noted that the City currently has an expenditure credit balance of more than \$230 million which will continue to be used when/if needed.

In summary, the language recommended by the City Attorney to allow for alternative distribution of tideland revenue has been included in the proposed amendment to Charter Section 55.2. Based on expected tideland expenditures over the next few years and a tidelands expenditure credit balance of more than \$230 million, it is unlikely that the City will need to use the language in section (b) in the foreseeable future.

Extension of 30 Years Beyond Scheduled Expiration Date

Charter Section 55.2, as approved in November 2008, sets an effective term for the requirements within the Charter Section from July 2, 2009 to June 30, 2039. Additionally, Charter Section 55.2 requires the City Council to place another measure on the ballot (no later than the last regularly scheduled election prior to June 30, 2039) asking voters to consider an extension of the provisions of Charter Section 55.2 for another 30 years through 2069.

The Mayor's proposal would ask voters to consider a 30-year extension through 2069 much sooner than the June 2039 deadline stipulated in Charter Section 55.2. The staff report indicates that an extension would provide sufficient time to develop a comprehensive financing plan to fund capital needs for Mission Bay Park and other Regional Parks. Additionally, the staff report indicates an extension could allow lease revenues to be leveraged to fund park projects using 30-year bonds.

It is important to note that one of the Mayor's proposed amendments to Charter Section 55.2 would again require the City Council to place yet another measure on the ballot (no later than the last regularly scheduled election prior to June 30, 2069) asking voters to consider yet another 30-year extension of the provisions of Charter Section 55.2.

Items to Consider

Completion of Condition Assessments

In FY 2014, the City initiated facility condition assessments for all the City-owned facilities and park assessments for all parks with the Park System, in order to assist in the prioritization of capital needs. Upon the completion of the condition assessments for City-owned facilities in FY 2016, condition assessments for City-leased facilities were initiated.

The City anticipates these condition assessments to be completed by the end of Calendar Year 2016, while the Park and Recreation Department anticipates the park assessments will require several additional years to complete. The Department anticipates the park assessment for Balboa Park to be completed by the end of Calendar Year 2016, with the Mission Bay Park assessment beginning upon the completion of the Balboa Park assessment. The park condition assessments for the other Regional Parks are anticipated to be undertaken in future years.

As the facilities and park condition assessments are not yet fully completed, the City has not yet developed a comprehensive capital priority list for the Regional Parks. For Mission Bay Park, several studies are planned to be initiated or are underway to evaluate necessary capital projects. These studies, such as the DeAnza Special Study, are not anticipated to be completed until FY 2019 or later.

Considerations Associated with Potential Bond Financing for Park Projects

In addition to continued investment in Mission Bay Park and other Regional Parks, leveraging lease revenues using long-term debt is one of the two primary reasons provided for the Mayor's proposed extension of Charter section 55.2. The staff report indicates that "an extension will also allow for the lease revenues to be leveraged for capital projects." To the extent that there is a desire or plan to issue 30-year bonds in the near term to facilitate projects in these parks, the IBA agrees that a reasonable extension beyond 2039 is necessary.

If the Mayor's proposal were to be approved, the \$3.5 million annual distribution to regional parks could be entirely leveraged to provide \$44.0 million of bond proceeds for regional park projects. The annual distribution to Mission Bay could be similarly leveraged to support bonds. While an extension beyond 2039 allows for the possibility of issuing long-term bonds for park projects, we raise the following issues for Council consideration:

- Additional General Fund revenue can also be used to support bonds for Mission Bay Park and Regional Park projects (e.g., deferred capital bonds)
- While bond financing makes funds immediately available for park projects, it also involves greater costs (\$3.5 million over 30 years equals \$105 million versus \$44 million today). Depending on park project prioritization and associated costs, it may be more cost effective to cash fund smaller projects over time
- Depending upon the useful life of the financed asset, it may be possible to issue bonds for shorter terms (e.g., 20 years) and in varied amounts to more precisely match immediate project needs (although multiple bond issues will increase bond transaction costs)
- The City currently lacks a comprehensive financing plan for projects in the Regional Parks. While it is possible to issue \$44 million of bonds, the Council currently does not have information on which projects would be financed in which regional parks
- It will take additional time for staff to assign priority rankings to park projects and determine which projects are sufficiently ready to receive bond financing

As is always the case with bond financing, staff capacity to manage financed projects is an important consideration given the need to also address other priority capital projects.

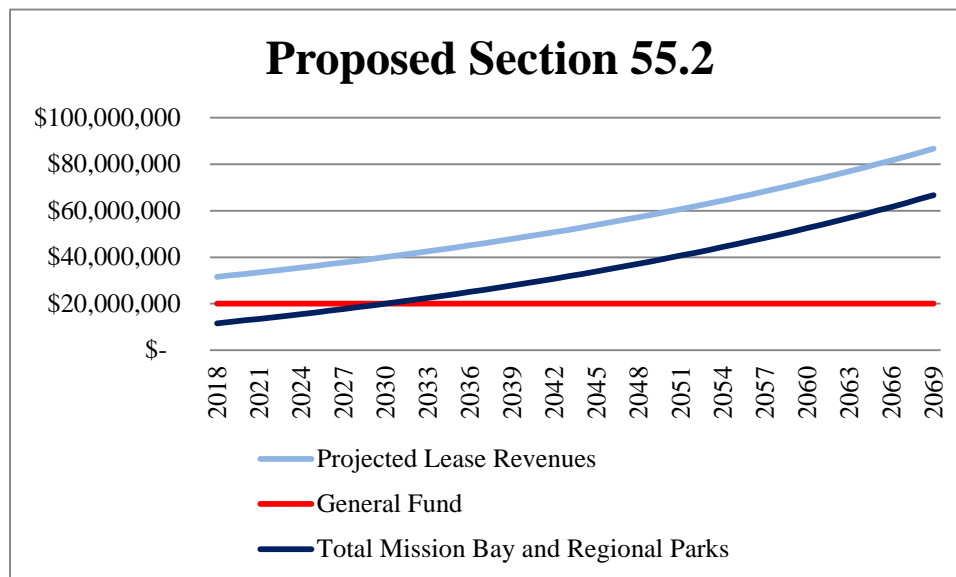
Ballot Measure Scenarios

The Mayor’s proposed measure for the November 2016 ballot maintains the allocation of lease revenues in excess of \$20.0 million to Mission Bay and Regional Parks, but increases the allocation to San Diego’s Regional Parks to 35% of excess lease revenues or \$3.5 million (whichever is greater), as well as extends the life of Section 55.2 through FY 2069. This proposed 30-year extension significantly increases the amount of funding allocated to Mission Bay and the Regional Parks, from a projected cumulative total of \$421.9 million (\$316.4 million for Mission Bay, \$105.5 million for Regional Parks) over the remaining 22 years of current Section 55.2, to a projected cumulative total of \$1.80 billion (\$1.17 billion for Mission Bay, \$630.7 million for Regional Parks) over the 52 years of the proposed extension, as displayed in the following table.³

Table 3: Projected Cumulative Allocations per Current Section 55.2 and Proposed Amendments, (FY 2018 through section expiration)

<i>\$ in millions</i>	Current Section 55.2	Mayor's Proposal	Difference
Charter Section Expiration (fiscal year)	2039	2069	30 years
Total General Fund	\$440.0	\$1,040.0	\$600.0
Total Parks Allocation	\$421.9	\$1,801.9	\$1,380.0
Total Mission Bay	\$316.4	\$1,171.2	\$854.8
Total Regional Parks	\$105.5	\$630.7	\$525.2

The Mayor’s proposed measure allocates revenues collected from Mission Bay leases for the next 52 years without any change to the annual \$20.0 million allocation to the General Fund, as displayed in the following chart.



³ Projections assume annual 2% growth in lease revenues over the FY 2017 budgeted amount. This assumption is consistent with the projections in the FY 2017-2021 Five-Year Financial Outlook.

Our Office notes that the needs of the General Fund, as well as of Mission Bay and the Regional Parks, may be different in 52 years than they are today. In the following sections we offer some options for Council’s consideration that address the length of the proposed measure as well as different scenarios for increasing the General Fund portion of the Mission Bay lease revenues, if desired.

IBA Recommendations and Alternate Scenarios

Length of Extension

At the June 30, 2016 Infrastructure Committee meeting, our Office offered comments on the length of time associated with the proposed ballot measure and noted that if the intent is to use Mission Bay lease revenues as a funding source in order to bond for capital projects within Mission Bay and the Regional Parks, then the Charter section would only need to be extended 30 years from the date of the bond issuance as City bonds are generally issued with 30-year terms.

An alternative to the proposed 52-year extension would be an increase of 35 years from the current fiscal year through FY 2052 (30 years for the term of the bond and an additional five years to determine Mission Bay and Regional Parks priorities, and to assess which priority projects are sufficiently ready to move forward using bond proceeds). The Committee expressed interest in the IBA’s suggested timeframe for the measure—while 35 years is still a considerable length of time to specify allocations for a particular revenue stream, it is only an increase of 13 years from the current Charter section’s FY 2039 expiration date, and it allows a future City Council to re-evaluate the needs of Mission Bay and the City’s Regional Parks against other City priorities 17 years sooner than the Mayor’s proposal.

IBA Recommendation: Reduce the length of the proposed extension of Charter Section 55.2 from 30 to 13 years, so that the final year of the extension is FY 2052 rather than FY 2069.

General Fund Growth

At the Infrastructure Committee, the IBA also commented on the proposed maintenance of a flat \$20.0 million allocation to the General Fund over the entirety of any extension of Section 55.2. Our Office recommended that Council consider potential alternatives in order to preserve some measure of General Fund flexibility and purchasing power to address changing needs and rising costs in the coming decades.

The \$20.0 million allocation to the General Fund began in 2015—prior to that time the General Fund had received an average of \$23.0 million per year since FY 2004, before the amendment to the Charter took effect in FY 2010. This report considers two scenarios for adjusting the amount allocated to the General Fund: either by increasing the General Fund allocation by the California Consumer Price Index (CCPI) each year (beginning in one of the following fiscal years: 2018, 2025, or 2040), or by allocating a proportion of Mission Bay lease revenues to the General Fund. In the latter case, our Office proposes that \$20.0 million or 50% of Mission Bay lease revenues be allocated to the General Fund, whichever is greater.

Option 1: CCPI Increase of General Fund Allocation

Rather than maintain the General Fund allocation of Mission Bay lease revenues at \$20.0 million over the proposed extension of Charter Section 55.2, one alternative option would be to tie annual growth in the General Fund allocation to the CCPI, an option our Office first proposed in 2008 (IBA Report 08-75) in our review of the original ballot measure. Depending on the fiscal year that CCPI is first applied, the cumulative (FY 2018-FY 2052) Mission Bay lease revenue transfer to the General Fund is projected to range from \$1.19 billion (if CCPI is applied beginning in FY 2018) to \$756.9 million (if CCPI is applied beginning in FY 2040), as displayed in the table below.⁴ The projected cumulative total for Mission Bay and Regional Parks ranges from a high of \$821.4 million if CCPI is applied beginning in FY 2040 (\$533.9 million to Mission Bay and \$287.5 million to Regional Parks) to a low of \$384.4 million if CCPI is applied beginning in FY 2018 (\$249.5 million to Mission Bay and \$134.9 million to Regional Parks).

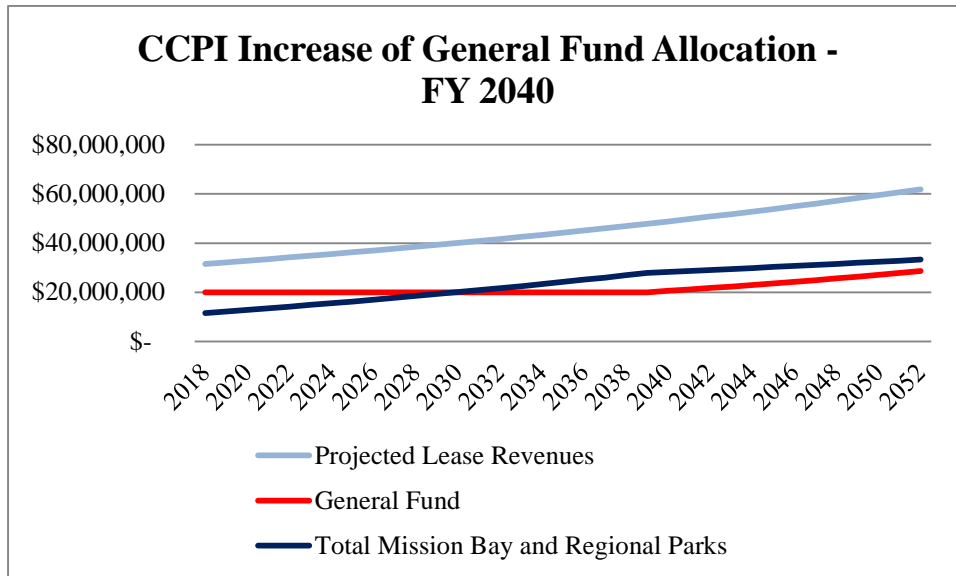
Table 4: Projected Cumulative Allocations when CCPI Applied and Proposed Charter Amendments (FY 2018-FY 2052)

<i>\$ in millions</i>	CCPI begins FY 2018	CCPI begins FY 2025	CCPI begins FY 2040	Mayor's Proposal
Total General Fund	\$1,194.0	\$995.6	\$756.9	\$700.0
Total Parks Allocation	\$384.4	\$582.8	\$821.4	\$878.4
Total Mission Bay	\$249.5	\$378.8	\$533.9	\$570.9
Total Regional Parks	\$134.9	\$204.0	\$287.5	\$307.4

As displayed in the preceding table, when CCPI is applied to the General Fund allocation beginning in FY 2018 or FY 2025, the General Fund receives more of the Mission Bay lease revenues by 2052 than the combined allocations to Mission Bay and Regional Parks. When CCPI is applied to the General Fund allocation beginning in FY 2040, however, the total combined parks allocation is greater than the General Fund allocation by approximately \$64.5 million. CCPI is projected at a higher annual growth rate than lease revenue growth, and the gap between the General Fund and the total parks allocation narrows over time once CCPI is applied beginning in FY 2040, as illustrated in the following chart.⁵

⁴ Projections assume annual 2% growth in lease revenues over the FY 2017 budgeted amount, consistent with the projections in the FY 2017-2021 Five-Year Financial Outlook. CCPI is also assumed at 2.8%, the average of the changes in CCPI from 1985-2015. **Note that cumulative totals for each application of CCPI as well as Proposed Section 55.2 are for the period 2018-2052.** The proposal for changing Section 55.2 from the Mayor’s Office extends until 2069, but we reduced the timeframe for this table for comparison purposes.

⁵ As an example, this chart illustrates the addition of CCPI to the General Fund allocation in FY 2040. When CCPI is applied in FY 2018 or FY 2025, the gap between the larger General Fund allocation and the lesser parks allocations, widens over time.



Similar to the scenario when CCPI is applied to the General Fund allocation in FY 2040, the measure proposed by the Mayor’s Office allocates a greater projected cumulative total to Mission Bay and Regional Parks than to the General Fund. The Mayor’s proposal allocates a considerably higher projected cumulative total to parks through FY 2052, however: \$178.4 million.

Option 2: Proportional Increase of General Fund Allocation

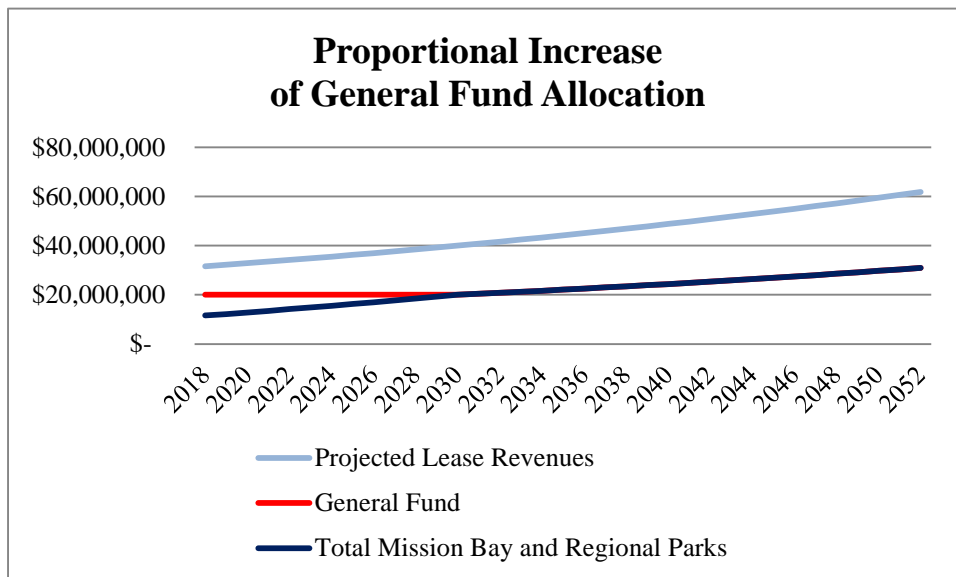
A second option for increasing the General Fund allocation of Mission Bay lease revenues is to increase the General Fund allocation proportionally, in a manner similar to the allocations already made each year to Mission Bay and the City’s Regional Parks, so that the General Fund receives an annual \$20.0 million allocation or 50% of all Mission Bay lease revenues, whichever is greater. Our Office notes that the General Fund allocation is projected to remain at \$20.0 million per year until approximately 2030, when 50% of the projected total lease revenues would first exceed the \$20.0 million threshold. This option results in projected cumulative (FY 2018-FY 2052) transfers of \$817.5 million from Mission Bay lease revenues to the General Fund, as displayed in the table below.⁶ The projected cumulative total for Mission Bay and Regional parks is \$760.9 million (\$494.6 million to Mission Bay and \$266.3 million to Regional Parks).

⁶ Projections assume annual 2% growth in lease revenues over the FY 2017 budgeted amount, consistent with the projections in the FY 2017-2021 Five-Year Financial Outlook. **Note that cumulative totals for the Proportional Increase option, as well as the Mayor’s Proposed Section 55.2, are for the period 2018-2052.** The proposal for changing Section 55.2 from the Mayor’s Office extends until 2069, but we reduced the timeframe for this table for comparison purposes.

Table 5: Projected Cumulative Allocations for Proportional Increase of General Fund and Proposed Charter Amendments (FY 2018-FY 2052)

<i>\$ in millions</i>	Greater of 50% of Revenues or \$20M	Mayor's Proposal	Difference
Total General Fund	\$817.5	\$700.0	\$117.5
Total Parks Allocation	\$760.9	\$878.4	(\$117.5)
Total Mission Bay	\$494.6	\$570.9	(\$76.4)
Total Regional Parks	\$266.3	\$307.4	(\$41.1)

This option for growth in the General Fund allocation is similar to two of the CCPI options presented in the preceding section in that it provides a larger cumulative total for the General Fund. However, this option differs from the CCPI scenarios in that the General Fund and the total parks allocation eventually grow together proportionally, as illustrated in the following chart.



IBA Recommendation: Approve a growth scenario for the General Fund allocation of Mission Bay lease revenues to preserve flexibility and purchasing power for the General Fund over the coming decades. Our Office recommends Option 2 as it allows for General Fund growth in future years, but only when Mission Bay lease revenues exceed \$40.0 million annually. At that time, equal allocations to the General Fund and the total allocation for Mission Bay and the Regional Parks would occur.

CONCLUSION

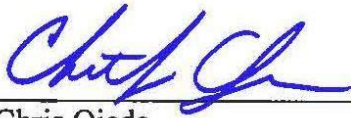
Historically, the City has acknowledged the need to identify a funding source for continued capital improvements within Mission Bay and the Regional Parks. On July 11, 2016, the Mayor’s Office will propose a ballot measure to amend City Charter Section 55.2 and extend it to FY 2069.

The proposed measure would extend the Charter section for 52 years from today. Our Office notes that the needs for Mission Bay, the Regional Parks, and the General Fund will change over time and are difficult to anticipate for the duration of the proposed extension. We therefore propose two recommendations that would reduce the term of the proposed extension and provide greater General Fund flexibility in future years:

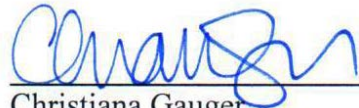
Recommendation 1: Reduce the length of the proposed extension of Charter Section 55.2 from 30 to 13 years, so that the final year of the extension is FY 2052 rather than FY 2069. This change will allow staff five years to develop and execute a financing plan for prioritized park projects using 30-year bonds.

Recommendation 2: Approve a growth scenario for the General Fund allocation of Mission Bay lease revenues to preserve flexibility and purchasing power for the General Fund over the coming decades. Our Office recommends “Option 2” as it allows for General Fund growth in future years at a rate equal to the growth of the total allocation to Mission Bay and the Regional Parks, but only when Mission Bay lease revenues exceed \$40.0 million annually.

Our Office remains available to assist the Council and the City Attorney in developing and finalizing ballot language for the proposed extension and modifications to Charter Section 55.2.



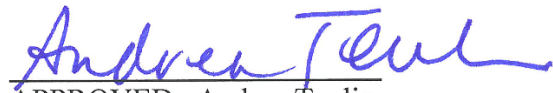
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