

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 11, 2007

IBA Report Number: 07-50

Redevelopment Agency Agenda Date: May 15, 2007

Item Number (Redevelopment): 1

Item Number (City Council): 330

Item: Fiscal Year 2008 Redevelopment Agency Budgets

OVERVIEW

Item 1 of the Redevelopment Agency Agenda is the request to adopt the Fiscal Year 2008 Redevelopment Agency budget for the projects administered by the Centre City Development Corporation (CCDC), Southeastern Economic Development Corporation (SEDC), and the City's Redevelopment Division. This is the final version of the agency budget and may differ from the information listed in Volume I of the Mayor's Proposed Budget, which reflected preliminary information.

In conjunction with this item, Item 330 requests the City Council to approve a loan repayment of \$1.2 million from the Southcrest (\$0.8m) and Central Imperial (\$0.4m) Project Areas and the issuance of an interest bearing CDBG loan in the amount of \$1.2 million for Gateway Center West Project Area (\$0.6m), Dells Imperial Study Area (\$0.2m), and Southcrest Project Area (\$0.4m). This results in a net zero impact to the City.

In summary, the combined Redevelopment Agency budget is \$336.9 million (as depicted in the table below).

Revenue	Agency Total	Expenditures	Agency Total
Tax Increment	\$149.4	Capital Projects	\$124.3
Prior Year Tax Revenues	35.4	Low/Mod Housing*	112.4
Bond, Line of Credit Proceeds	126.5	Administration	19.5
Reloans	1.1	Tax Sharing Payments	24
Interest/Rent/Property	20.1	Debt Service/Project Reserve	56.7
Developer Proceeds	4	FY 2008 Expenditures	\$336.9
City Loans	0.2		
Other	0.2		
FY 2008 Revenue	\$336.9	*Excludes CCDC admin	

FISCAL/POLICY DISCUSSION

Centre City Development Corporation Changes in Budget from 2007 to 2008 (in thousands)

	FY07 Budget	% of Total Budget	FY08 Budget	% of Total Budget	Change from 08 to 07	% Change
REVENUES						
Tax Increment	\$79,058	45%	\$102,127	47%	\$23,069	29%
Tax Allocation Bond Proceeds	\$51,000	29%	\$60,115	28%	\$9,115	18%
Developer Proceeds/Pass thrus/Other	\$5,140	3%	\$2,950	1%	-\$2,190	-43%
Interest/Lease/Notes/Other	\$15,704	9%	\$19,384	9%	\$3,680	23%
Prior Year Revenues/Adjustments	\$25,459	14%	\$32,960	15%	\$7,501	29%
Total Revenues	\$176,361		\$217,536		\$41,175	23%
EXPENDITURES						
Capital Projects	\$80,946	46%	\$82,327	38%	\$1,381	2%
Low/Mod Housing	\$42,142	24%	\$75,088	35%	\$32,946	78%
Tax Sharing	\$10,435	6%	\$13,400	6%	\$2,965	28%
Administration/City Services	\$9,650	5%	\$10,100	5%	\$450	5%
Debt Service	\$33,188	19%	\$36,621	17%	\$3,433	10%
Total Expenditures	\$176,361		\$217,536		\$41,175	23%

The Fiscal Year 2008 Budget for CCDC is \$217.5 million, which represents a 23% increase over the Fiscal Year 2007 Budget. Significant changes in revenue are reflected in bond proceeds and tax increment. The increased revenues will provide a significant boost in funding for Low and Moderate Income Housing. In addition to the budgeted monies in Fiscal Year 2008, CCDC has \$218.0 million in carryover monies from the previous fiscal year. Total available funding for projects is approximately \$435.5 million. A detailed listing of proposed expenditures utilizing carryover and new FY08 funds is included in Schedule III of CCDC's submittal. The list of expenditures lists both required (highlighted in bold) and discretionary (non-bolded) projects. CCDC's Budget states that discretionary projects are at the Board's discretion and priority.

CCDC Administrative Budget

The table above states \$10.1 million has been identified for administrative and city services expenses. Of the \$10.1 million, CCDC's Administrative Budget is projected to be \$9.4 million in FY 2008, which is \$1.3 million higher than Fiscal Year 2007 (a 15.4% increase). This increase reflects additional positions, salary increases, and significant increases in non-personnel expenses. CCDC's Administrative Budget has a net increase of 3.70 FTE, which reflects position additions (4.00 FTE), the change of a part-time to full-time position (0.20 FTE), and the reclassification/swap of positions (net reduction of 0.50 FTE). A salary increase has been applied for merit increases and cost of living increases. The salary increases are approximately 3%. In Fiscal Year 2007, the Redevelopment Agency approved a salary freeze for CCDC and SEDC to correspond with the lack of salary increases in the

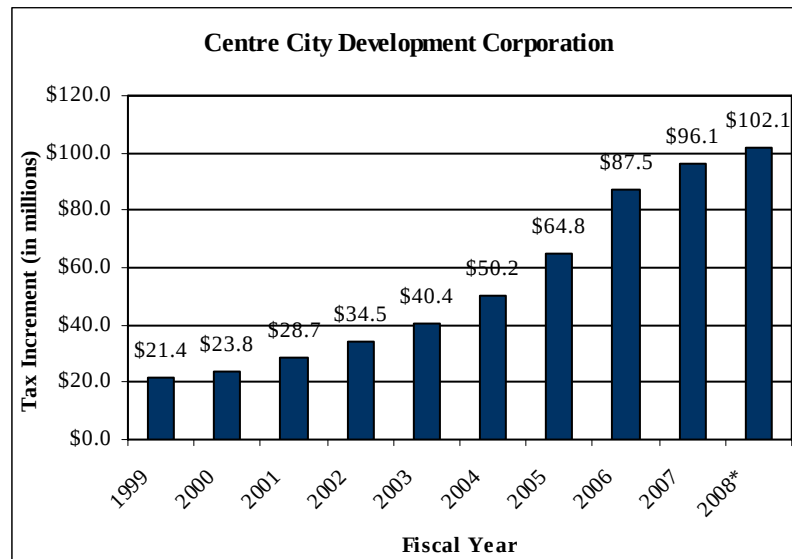
FTEs by Fiscal Year	
Fiscal Year 2006	49.20
Fiscal Year 2007	51.40
Fiscal Year 2008	55.15

City of San Diego. The Redevelopment Agency may wish to tie any future salary increases to that proposed for the City of San Diego, possibly to a specific bargaining unit or labor organization (i.e. Municipal Employees Union).

The primary reason for the significant increase in non-personnel expenses is due to additional rent expense for a possible relocation of the boardroom and/or offices (\$181,000) and additional funding for office space modifications and improvements to the Downtown Information Center (\$285,000).

Tax Increment

The primary source of funding for redevelopment is tax increment, which reflects the increased property values in the project areas administered by the agency. CCDC has experienced an annual average increase of 23% for the past five fiscal years. The Fiscal Year 2008 budget reflects a conservative 6% increase from the revenues anticipated to be received in Fiscal Year 2007. The IBA notes that it appears to be the practice of CCDC to conservatively budget this source of revenue. In Fiscal Year 2006, CCDC budgeted \$63.3 million, but actual receipts totaled \$87.5. Similarly in Fiscal Year 2007, CCDC budgeted \$79.1 million, but is projecting to receive \$96.1 million, which results in excess revenues of \$17 million.



Southeastern Economic Development Corporation
Changes in Budget from 2007 to 2008
(in thousands)

	FY07	% of Total	FY08	% of	Change	%
REVENUES	Budget	Budget	Budget	Total	from 08	Change
Tax Increment	\$5,094	20%	\$6,782	21%	\$1,688	33%
Tax Allocation Bond Proceeds	\$60	0%	\$24,206	75%	\$24,146	40243%
Developer Proceeds/Pass thrus/Other	\$1,269	5%	\$110	0%	-\$1,159	-91%
Reloans	\$400	2%	\$1,126	3%	\$726	182%
Interest/Lease/Notes/Other	\$343	1%	\$36	0%	-\$307	-90%
City Loans	\$85	0%	\$200	1%	\$115	135%
Prior Year Revenues/Adjustments	\$18,617	72%	\$0	0%	-\$18,617	-100%
Total Revenues	\$25,868		\$32,460		\$6,592	25%
EXPENDITURES						
Capital Projects	\$16,882	65%	\$15,058	46%	-\$1,824	-11%
Low/Mod Housing	\$2,309	9%	\$7,496	23%	\$5,187	225%
Tax Sharing	\$229	1%	\$699	2%	\$470	205%
Administration	\$1,925	7%	\$2,577	8%	\$652	34%
Debt Service/Reserves	\$4,523	17%	\$6,630	20%	\$2,107	47%
Total Expenditures	\$25,868		\$32,460		\$6,592	25%

	FY07	% of Total	FY08	% of	Change	%
Project Area	Budget	Budget	Budget	Total	from 08	Change
Central Imperial	\$7,714	30%	\$13,756	42%	\$6,042	78%
Dells Imperial Study	\$0	0%	\$200	1%	\$200	-
Gateway Center West	\$1,825	7%	\$889	3%	-\$936	-51%
Mount Hope	\$10,385	40%	\$1,392	4%	-\$8,993	-87%
Southcrest	\$5,766	22%	\$16,203	50%	\$10,437	181%
Commercial Rehab.	\$171	1%	\$0	0%	-\$171	-100%
Bridge Lights	\$7	0%	\$20	0%	\$13	186%
Total Budget	\$25,868		\$32,460		\$6,592	25%

The Fiscal Year 2008 Budget for SEDC is \$32.5 million, which represents a 25% increase over the Fiscal Year 2007 Budget. The primary source of increased funding is tax allocation bonds. The issuance of these bonds is scheduled for review and approval by the Redevelopment Agency as the same day as the budget (May 15, 2007, Item 2). Upon our review of both issues there appears to be discrepancies as to the amount of proceeds expected for Fiscal Year 2008, which may have occurred due to timing of the preparing the budget and finalizing the bond issuance. If the Redevelopment Agency does not approve the bond issuance and/or the bond proceeds vary from the amount budgeted, SEDC will need to amend their budget.

In addition to the budgeted monies in Fiscal Year 2008, SEDC has \$19.5 million in carryover monies from the previous fiscal year. Total available funding for projects is approximately \$52.0 million. The increased budget reflects significant increases in the

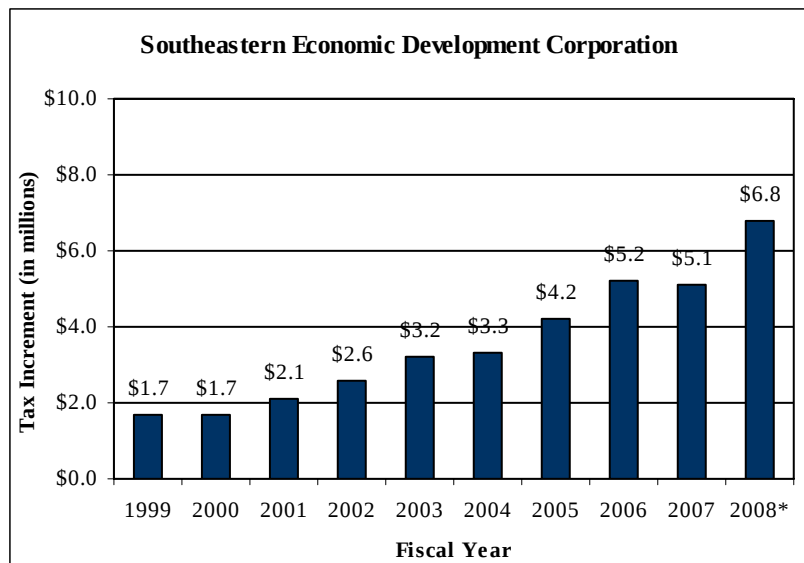
Central Imperial and Southcrest project areas, but a decrease in the Mount Hope project area.

SEDC Administrative Budget

SEDC's Administrative Budget is \$2.6 million and unlike CCDC allocates expenses for City services to the specific capital projects. In comparison with last fiscal year, SEDC's Administrative Budget is approximately the same, in respect to its percentage of the total budget, but FY2008's budget proposes a 34% increase. This increase reflects a 30% increase in salaries, including the addition of 0.50 FTE (changing a part-time employee to full-time status). This increase in salaries appears excessive. As noted before, the Agency may wish to tie any future salary increases to that proposed for the City of San Diego.

Tax Increment

The average annual increase for SEDC in the past five fiscal years is approximately 15%, but the agency is anticipating a loss of 2% in Fiscal Year 2007 compared to revenue received in Fiscal Year 2006. SEDC is budgeting a 33% increase in tax increment for Fiscal Year 2008, which the IBA believes may be overly optimistic.



City Redevelopment
Changes in Budget from 2007 to 2008
(in thousands)

	FY07 Budget	% of Total Budget	FY08 Budget	% of Total Budget	Change from 08 to 07	% Change
REVENUES						
Tax Increment	\$39,519	41%	\$40,513	30%	\$994	3%
Bond Proceeds/Line of Credit	\$263	0%	\$42,153	31%	\$41,890	15928%
Developer Proceeds/Pass thrus/Other	\$287	0%	\$923	1%	\$636	222%
Interest/Lease/Notes/Other	\$476	0%	\$854	1%	\$378	79%
Prior Year Revenues/Adjustments	\$55,753	58%	\$50,865	38%	-\$4,888	-9%
Total Revenues	\$96,298		\$135,308		\$39,010	41%
EXPENDITURES						
Capital Projects	\$24,023	25%	\$39,650	29%	\$15,627	65%
Low/Mod Housing	\$13,995	15%	\$39,439	29%	\$25,444	182%
Tax Sharing	\$16,997	18%	\$17,054	13%	\$57	0%
Administration	\$12,945	13%	\$12,190	9%	-\$755	-6%
Debt Service/Reserves	\$28,338	29%	\$26,975	20%	-\$1,363	-5%
Total Budget	\$96,298		\$135,308		\$39,010	41%

	FY07 Budget	% of Total Budget	FY08 Budget	% of Total Budget	Change from 08 to 07	% Change
Project Area						
Barrio Logan	\$644	1%	\$1,078	1%	\$434	67%
City Heights	\$33,397	35%	\$44,662	33%	\$11,265	34%
College Comm	\$1,768	2%	\$2,038	2%	\$270	15%
College Grove	\$1,751	2%	\$2,117	2%	\$366	21%
Crossroads	\$8,043	8%	\$10,112	7%	\$2,069	26%
Grantville	\$615	1%	\$1,012	1%	\$397	65%
Linda Vista	\$738	1%	\$781	1%	\$43	6%
NTC	\$13,886	14%	\$22,093	16%	\$8,207	59%
North Bay	\$15,419	16%	\$20,260	15%	\$4,841	31%
North Park	\$12,885	13%	\$20,069	15%	\$7,184	56%
San Ysidro	\$7,152	7%	\$11,086	8%	\$3,934	55%
Total Budget	\$96,298		\$135,308		\$39,010	41%

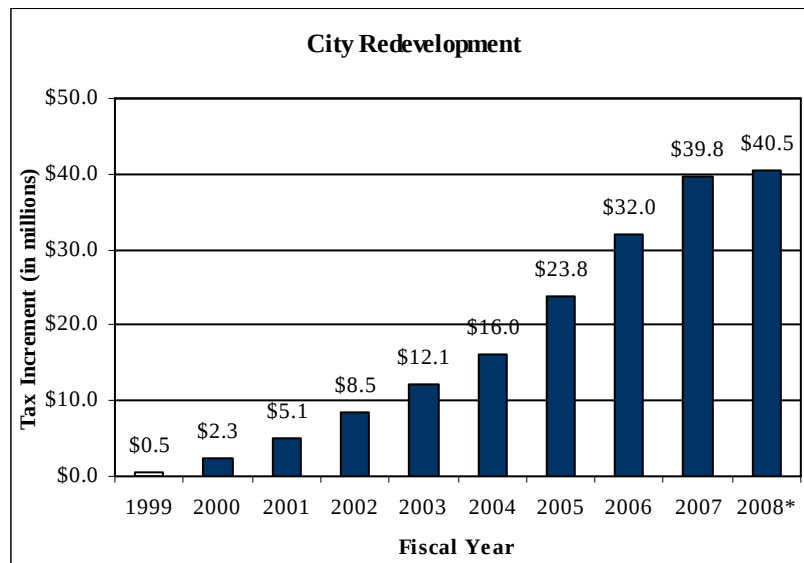
The Fiscal Year 2008 Budget for City Redevelopment is \$135.3 million, which represents a 41% increase over the Fiscal Year 2007 Budget. Similar to CCDC and SEDC, City Redevelopment is experiencing additional funding as a result of proceeds from a line of credit.

City Redevelopment Administrative Budget

City Redevelopment had 27.80 FTEs in Fiscal Year 2007, but has eliminated 0.80 FTE of an Executive Secretary and added 1.00 Community Development Specialist IV, which is reimbursable.

Tax Increment

City Redevelopment has experienced a 36% average annual increase in tax increment for the past five fiscal years. Similar to CCDC, it appears that City Redevelopment is budgeting a conservative estimate for Fiscal Year 2008. The Fiscal Year 2008 budget of \$40.5 million reflects a 2% increase.



Loan Repayment and Transfer of Debt

Attachment I details the Redevelopment Agency's Debt Schedule to the City as of June 30, 2006 by project area. As of June 30, 2006, a total of \$234.9 million is outstanding, which includes principal and interest. No repayment schedule exists for any of the project areas, but it has been contemplated that funds will be repaid in the last ten years of existence for the specific project area. CCDC anticipates that repayment may begin as early as 2015 due to accelerated success of the downtown redevelopment areas. Since no repayment schedules exist to date, the IBA recommends that the Agency discusses the development of a plan to repay outstanding debt for each project area. The development of these schedules will assist in future planning for both the City and the Redevelopment Agency.

The Fiscal Year 2008 Budget for the Redevelopment Agency does not include any repayment of loans that would reduce the Agency's outstanding debt or provide funding for other city uses. If the Redevelopment Agency chooses to direct that a repayment of outstanding debt be made, the budgets would need to be amended and projects identified in Fiscal Year 2008 may need to be reprioritized or delayed.

Discussions have occurred as to the ability to transfer existing debt (i.e. bond payments for Petco Park) to the Redevelopment Agency. Redevelopment law allows for the financing of public facilities provided the following findings can be made:

- Payment of funds by the agency will assist in the elimination of blight,
- That there is no other means of financing the facilities and
- That the facilities are of benefit to the project area.

Although finances are constrained, the City is currently making the bond payments and there may be difficulty in making the finding that “there are no other means of financing.” The IBA recommends that legal advice be given on whether the findings could be made and subsequently transfer the debt.

Fiscal Year 2008 CDBG Recommendations

During the Budget Hearing to discuss CDBG allocation, Council District 8 recommended an allocation of funding in the amount of \$150,000 for Redevelopment Plan Adoption activities. During our review, the IBA determined that these funds were not included in the Agency budget. The Council office has indicated that these funds are intended for work to be performed for the Barrio Logan Project Area and/or Dells Imperial Study Area. Additional City Council actions and possible Redevelopment Agency Budget amendments will be necessary to allow for these funds to be used for these purposes.

CONCLUSION and/or RECOMMENDATION(S)

The IBA recommended last year that a consistent budget format be developed for the three components (CCDC, SEDC, and City Redevelopment) of the Redevelopment Agency. Since there are no standards, each component develops and depicts there information based on their preference. One format would assist in the IBA, Council, and public’s review of these documents.

1. Develop and initiate a standard and consistent budget format for CCDC, SEDC, and City Redevelopment
2. Develop policy on the possible link of future salary increases for CCDC and SEDC to City salary increases.
3. Develop a plan and/or schedule to repay outstanding debt for each redevelopment project area.
4. Obtain legal opinion on determination of findings for the transfer of debt from the City to the Agency.
5. Include Council District 8’s recommendation for CDBG allocation (\$150,000) in the appropriate project area budget.

[SIGNED]

Lisa Celaya
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst

Attachment I: City Loan Debt Schedule – FY 2006

REDEVELOPMENT AGENCY

City Loan Debt Schedule -- FY 2006

Principal and Interest Due by Project Area

PROJECT AREAS	PRINCIPAL BALANCE 06/30/2006	INTEREST BALANCE 06/30/2006	TOTAL DUE
Barrio Logan	10,952,040.80	10,664,541.22	21,616,582.02
Central Imperial	18,816,378.88	10,495,903.56	29,312,282.44
Centre City:			
Centre City Expansion	5,227,195.21	2,395,107.25	7,622,302.46
Columbia	4,308,079.00	5,123,346.01	9,431,425.01
Gaslamp	1,612,979.82	2,713,372.44	4,326,352.26
Marina	32,036,153.40	55,745,756.98	87,781,910.38
<i>Subtotal Centre City</i>	<i>43,184,407.43</i>	<i>65,977,582.68</i>	<i>109,161,990.11</i>
City Heights	8,526,565.70	5,710,929.32	14,237,495.02
College Community	721,591.00	736,851.39	1,458,442.39
College Grove	40,963.36	22,209.76	63,173.12
Crossroads	793,293.82	189,269.43	982,563.25
Gateway	6,129,466.48	12,968,308.78	19,097,775.26
Grantville	** 472,508.14	57,823.40	530,331.54
Horton Plaza	-	-	-
Linda Vista	1,945,140.56	4,028,421.64	5,973,562.20
Market Street	-	-	-
Mt. Hope	3,918,313.65	562,836.53	4,481,150.18
Naval Training Center (NTC)	3,353,718.90	963,319.22	4,317,038.12
North Bay	-	-	-
North Park	2,037,272.00	1,226,562.06	3,263,834.06
San Ysidro	775,127.93	788,534.28	1,563,662.21
Southcrest	9,565,283.36	9,242,480.90	18,807,764.26
TOTAL DUE - ALL PROJECTS	111,232,072.01	123,635,574.17	234,867,646.18
SURVEY AREAS			
Dells Imperial	722,902.56	664,895.92	1,387,798.48
Pacific Beach	25,000.00	10,573.77	35,573.77
TOTAL CONTRIBUTIONS TO SURVEY AREAS	747,902.56	675,469.69	1,423,372.25
GRAND TOTAL	111,979,974.57	124,311,043.86	236,291,018.43

** Grantville became a Project Area in FY05. Prior to FY05, Grantville was included in the Survey Area section.