
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Redevelopment Agency Fiscal Year 2011 Budget

OVERVIEW

The Redevelopment Agency of the City of San Diego was created by the City Council in 1958 to alleviate conditions of urban blight in designated areas of the City. The Redevelopment Agency is a separate, legal entity, with the City Council serving as the legislative body. Redevelopment activities in 17 different project areas are carried out by three entities: the City Redevelopment Division, and two public, nonprofit corporations, Centre City Development Corporation (CCDC) and Southeastern Economic Development Corp. (SEDC).

The City Redevelopment Division manages 11 project areas throughout San Diego. The Redevelopment Division of the City Planning and Community Investment Department serves as staff to the Agency with duties that include coordinating budget and reporting requirements. CCDC administers two project areas centered in Downtown San Diego, and SEDC administers four project areas and one study area that covers several neighborhoods in the southeastern portion of the City. This report provides an overview of the consolidated Redevelopment Agency FY 2011 Budget, and the administrative and project budgets for each of the three entities.

FISCAL/POLICY DISCUSSION

The Fiscal Year 2011 Proposed Budget for the Redevelopment Agency is \$211.8 million, and includes \$59.9 million for non-housing capital projects, \$24.3 million for affordable housing projects, and \$18.1 million in administrative expenditures and payments for City

services.

The Proposed Redevelopment Agency Budget also includes funding for the FY 2011 ERAF payments, as well as anticipated CDBG loan repayments amounts. Citywide, these payments in FY 2011 are anticipated to be \$11.5 million and \$3.3 million, respectively. It should be noted that the Council and Redevelopment Agency have yet to formally approve the CDBG Loan Repayment agreement, as required by the Office of Inspector General's audit of the City's CDBG program. The CDBG Loan Repayment Agreement is docketed for Council and Agency consideration at the meeting of June 21, 2010. An overview of revenues and expenditures is illustrated in the table below.

FY 2011 RDA Budget (in millions)	City	CCDC	SEDC	TOTAL
REVENUES				
Tax Increment - Non-Housing (80%)	\$ 35.9	\$ 100.2	\$ 4.5	\$ 140.6
Tax Increment - Housing (20%)	9.0	25.1	1.1	35.2
Bond Proceeds/Lines of Credit	0.0	0.0	1.7	1.7
Developer Proceeds/Advances	0.4	1.8	0.0	2.2
Interest, Lease, Notes, Other	0.4	11.6	0.0	12.0
Prior Year Revenues	0.8	15.9	3.4	20.1
TOTAL REVENUES	\$ 46.5	\$ 154.6	\$ 10.7	\$ 211.8
EXPENDITURES				
Capital Projects	\$ 12.7	\$ 45.5	\$ 1.7	\$ 59.9
Low/Mod Project Activities	6.4	15.6	2.4	24.4
Tax Sharing Payments	13.1	25.1	1.0	39.2
<i>FY 2011 ERAF Payments</i>	2.8	8.2	0.5	11.5
Administration/City Services	5.2	10.8	2.0	18.0
Payments to City	1.0	13.3	0.3	14.6
<i>CDBG Repayment*</i>	1.0	2.0	0.3	3.3
<i>PETCO Park Debt Service</i>	0.0	11.3	0.0	11.3
Debt Service	8.1	44.3	3.3	55.7
TOTAL EXPENDITURES	\$ 46.5	\$ 154.6	\$ 10.7	\$ 211.8

** The FY 2011 Proposed Budget for the City Redevelopment Division project areas reflects the CDBG payment in the Debt Service category.*

The following sections provide a review of the FY 2011 Proposed Budget for each of the three entities that administer redevelopment activities, the City Redevelopment Division, CCDC, and SEDC.

City Redevelopment Division

The Fiscal Year 2011 Proposed Budget for the City Redevelopment Division is \$54.7 million, reflecting a net reduction of \$8.2 million from the FY 2010 Adopted Budget. This reduction is driven primarily by a \$1.6 million decline in tax increment revenues and a \$5.0 million reduction in revenue drawn from lines of credit. Due to the reduction in revenues, the budget for capital projects and affordable housing projects has been reduced as well. The proposed budget for non-housing capital projects is \$12.7 million, a reduction of \$5.6 million from FY 2010. Affordable housing projects are budgeted at \$6.4 million, a \$2.3 million reduction from FY 2010.

The administration budget for the City Redevelopment Division is \$5.4 million, including \$1.3 million for payments for City services. The proposed budget for administration reflects an increase of approximately \$400,000 from the FY 2010 Budget, primarily due to increases in fringe benefit expenditures. The FY 2011 Proposed Budget also includes the City Redevelopment Division's share of the FY 2011 ERAF payment, and anticipated CDBG loan repayment amounts, at \$2.8 million and \$1.0 million, respectively.

In FY 2010, 1.00 Financial Operations Manager was added to the Redevelopment Division's budget in order to support budget and fiscal monitoring of Agency-related activities, continuing bond disclosures, internal control oversight, and bond proceeds monitoring. However, the position was never filled and remains vacant. In accordance with the City's new budget procedure regarding vacant positions, no funding has been included in the City's FY 2011 Proposed Budget for this position. However, Agency staff has confirmed that funding is available and included in the Agency's budget, and that this position is anticipated to be filled in FY 2011.

Center City Development Corporation

The FY 2011 Proposed Budget for the CCDC is \$154.6 million, a decrease of \$4.9 million from the FY 2010 Adopted Budget. Tax increment revenues are budgeted at \$125.3 million, an \$8.2 million reduction from FY 2010, while revenues from interest earnings reflect a reduction of \$6.1 million from FY 2010. These declines in revenue are partially offset by a \$13.6 million increase in prior year revenue.

The proposed budget for non-housing capital projects is \$45.5 million, a \$10.6 million decrease from FY 2010. Affordable housing projects are budgeted at \$15.6 million, a \$1.9 million reduction. Tax sharing payments are budgeted at \$25.2 million, a \$6.1 million increase from FY 2010. This increase primarily reflects CCDC's share of the FY 2011 ERAF payment of \$8.2 million.

The FY 2011 proposed administrative budget for CCDC is \$10.8 million, including \$2.2 million for payments for City services and \$1.4 million for other administrative expenses, such as insurance, audit expenses and county administration fees. The budget for administration reflects a decline of approximately \$532,000, primarily related to the

elimination of 5.75 positions in the current year. One new position, a Contract Administrator, was added to the FY 2011 Proposed Budget, resulting in a net reduction of 4.75 positions. Other payments to the City, including the \$11.3 million for the PETCO Park Bonds and \$2 million for the estimated CDBG repayment, are also reflected in FY 2011 Proposed Budget.

The FY 2011 Proposed Capital Projects Budget for project areas managed by CCDC includes approximately \$2.5 million for economic development programs, including \$1.5 million in FY 2011 funding. CCDC's FY 2011 work program for economic development includes acquiring or leasing a building for a small business incubator program, and developing a comprehensive Economic Development and Business Attraction program. We encourage CCDC to align the development of such a comprehensive Economic Development program with the City's effort to update the Economic Development Strategy to ensure consistency and coordination of economic development programs and goals.

Southeastern Economic Development Corporation

The FY 2011 Proposed Budget for SEDC is \$10.7 million, a reduction of nearly \$4.5 million from the FY 2010 Adopted Budget. Total tax increment revenues are budgeted at \$5.6 million, a reduction of approximately \$1.2 million from the FY 2010 Adopted Budget. It should be noted that the FY 2010 Budget was amended in September 2009 to reduce projected tax increment revenues as a result of continued weakness in the real estate markets. Compared to the FY 2010 Amended Budget, tax increment revenue in the FY 2011 Proposed Budget reflects a reduction of approximately \$490,000.

The proposed budget for non-housing capital projects is \$1.7 million, a reduction of \$3.1 million from the FY 2010 Adopted Budget. Affordable housing projects are budgeted at \$2.4 million, a reduction of \$1.7 million from FY 2010. The budget for tax sharing payments reflects a \$57,000 reduction to \$566,000. SEDC administrative costs, including payments for City services, are budgeted at \$2.0 million, a reduction of approximately \$536,000 from the FY 2010 Budget. This reduction is primarily due to the elimination of 5.50 positions in the current year as a result of declining revenues. The FY 2011 Proposed Budget also includes SEDC's share of the FY 2011 ERAF payments and estimated CDBG loan repayment to the City. These amounts are budgeted at \$476,000 and \$312,000, respectively.

On June 15, 2010, the Redevelopment Agency adopted the SEDC Strategic Plan. The development of a Strategic Plan was a key recommendation of the performance audit conducted in 2008 by the Macias Consulting Group, as is a new requirement of the amended Bylaws and Operating Agreements adopted by the Council and Agency on March 22, 2010.

The goal of the Strategic Plan is to align limited resources with the purpose and mission of the entire Redevelopment Agency, and to reposition the focus and direction of SEDC redevelopment activities. Some of the key recommendations of the Strategic Plan include:

- Merging the project areas and increasing the tax increment limit;
- Creating one consolidated Project Area Committee; and
- Focusing on market-rate projects in order to stimulate tax increment growth.

Many of the strategies and recommendations in the Strategic Plan are likely to have a positive impact on SEDC's financial outlook. However, the Strategic Plan is considered a policy document, not a mechanism for implementation. Further Council and Agency actions, as well as extensive public outreach and participation, will be required before many of the key strategies and recommendations can be implemented.

CONCLUSION

On June 21, 2010, the Redevelopment Agency Board will consider the FY 2011 Proposed Budget for the City of San Diego Redevelopment Agency. Redevelopment activities in the Agency's 17 different project areas are carried out by three entities: the City Redevelopment Division, the Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corp. (SEDC). This report provides an overview of the consolidated FY 2011 Proposed Redevelopment Agency Budget, and the administrative and project budgets for each of the three entities.

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