

SDCTA Review of Centre City Development Corporation Tax Increment Increase Process

June 2010

Board Action:

SUPPORT Redevelopment Agency funding for CCDC to prepare the proposed amendment to the Centre City Redevelopment Plan and study the fiscal impacts of a Cap increase; SDCTA will review the final proposed amendment prior to taking a final position to support or oppose the Cap increase

Rationale:

The proposed action scheduled to be heard on June 22, 2010 asks the Redevelopment Agency to approve the funding necessary to prepare a proposed amendment to the Centre City Redevelopment Plan. Approval by the Agency is in no way associated with supporting an actual increase in the Cap, but rather is a necessary step to determine the future of CCDC and the projects within the area that remain to be completed. SDCTA believes previously completed projects (Petco Park and Convention Center Expansion) have had a significant impact on the Project Area and in turn should be funded by the tax increment that resulted from the projects. Prior to formulation of a final position on the proposed amendment, SDCTA will review the project list to determine if any significant fiscal impacts exist that will have an adverse impact on the City's General Fund budget.

Background:

There has been much discussion within the City of San Diego regarding projects within the Centre City Development Corporation (CCDC)¹ Centre City Project Area (Project Area) and the ability of CCDC to complete the projects approved within the Centre City Redevelopment Plan (Plan)². CCDC contends that the Project Area's Tax Increment³ Limit (Cap) must be increased in order to complete the projects listed.

In March of 2009, CCDC staff was directed to provide a report on the process of moving forward with an amendment to the Plan to increase the Cap.

| | |
|--------------------------|-------------|
| Capital Projects | 21% |
| Debt Service | 30% |
| Tax Sharing Payments | 25% |
| Ballpark & CDBG Payments | 7% |
| Admin & City Services | 16% |
| Low/Mod Projects | 11% |
| Total | 100% |

¹ CCDC, formed in 1975, is the public, non-profit corporation created by the City of San Diego to staff and implement Downtown redevelopment projects and programs.

² The Centre City Redevelopment Plan includes the Columbia, Marina and Gaslamp Quarter sub areas. In 1992 the plan incorporated the East Village, Little Italy, and Cortez sub areas. Projects within the plan are a compilation and continuation of the Redevelopment Plans for merged subareas and projects within the added subareas.

³ Tax Increment is the amount of increased property tax revenue generated by a redevelopment project over the base property values assessed at the time a redevelopment project area is adopted

Source: CCDC Presentation to Council
 March 10, 2009

Current Tax Limit (Cap): The current Plan, adopted in 1992, limits the amount of tax increment available to be received and allocated for projects to \$2.894 billion. At the time, this limit was imposed under California Redevelopment Law. In 1993, Assembly Bill 1290 amended California Redevelopment Law by eliminating the limit on the amount of tax increment revenue that can be generated to complete a redevelopment plan, and instead placed a 30 year time limit on redevelopment plans, with an ability to receive a 15-year extension.⁴

| Year | Tax Increment Revenue (Non-Housing) | Tax Sharing Payment |
|------|-------------------------------------|---------------------|
| FY10 | \$106.9 | \$19.0 |
| FY11 | \$108.1 | \$19.0 |
| FY12 | \$110.4 | \$40.2 |
| FY13 | \$112.3 | \$41.1 |
| FY14 | \$117.5 | \$43.2 |

Source: CCDC FY10 Budget

At the March 10, 2009 San Diego City Council meeting, the Council directed CCDC staff to report back on the process of amending the Plan through increasing the Cap to provide the ability to continue eliminating blight within the Project Area. CCDC has stated that the amount of uncommitted tax increment available for projects through the life of the project area (under the current Cap) is not sufficient to complete the remaining projects within the project list.

As of June 30, 2009, CCDC has collected \$794 million in tax increment revenue, with \$2.1 billion remaining to collect. However a large portion of those remaining funds are committed to various areas such as housing set aside⁵ and debt service. From Fiscal Year (FY) 2010 moving forward, CCDC has an estimated \$386 million in uncommitted funds remaining that can be dedicated to complete capital improvement projects. The current Plan allows CCDC to spend approximately \$2.9 billion through the life of the Project Area. It is anticipated the Cap would be reached by the year 2024.

Tax-Sharing Agreements: The establishment of the Project Area requires a tax sharing agreement with four entities: County of San Diego (County), San Diego Unified School District (SDUSD), San Diego Community College District (SDCCD), and the County Office of Education (COE). Each year a percentage of the tax increment generated by the Project Area is allocated to each entity based on an agreement established in 1992. The agreement outlines the percentage of property tax that is allocated to each agency based on the annual amount of tax increment that is generated within the Project Area.

| Taxing Entity | Annual TI >\$27M |
|---------------|------------------|
| County | 7.00% |
| SDUSD | 4.00% |
| SDCCD | 1.65% |
| COE | 0.45% |
| Total | 13.10% |

Source: Summary of CCDC Tax Sharing Agreements

⁴ Government Code Section 33333.2 (B).

⁵ California Community Redevelopment Law requires no less than 20 percent of tax increment revenue be deposited into a housing fund set aside specifically to finance low-to moderate- income housing.

Tax Increment Revenue: Over the next five years, CCDC is estimated to receive \$555 million in tax increment revenue (non-housing). Of these revenues, payments are made to the City, tax-sharing entities, various projects and debt service. While CCDC is allowed to generate and spend \$2.9 billion in tax increment revenue through the life of the Project Area, all but \$386 million is uncommitted to complete projects within the Redevelopment Plan.

Proposal:

On June 22, 2010, the City of San Diego Redevelopment Agency (Agency) will be asked to authorize CCDC to proceed with preparing documentation to update blight conditions necessary for an amendment to the Cap. The item was originally heard on April 27, but was continued by the Agency.

Cap Increase Process⁶: California Community Redevelopment Law outlines the steps necessary to make amendments to redevelopment plans, which includes increasing the Cap. Steps include public hearings of both the Council and the Redevelopment Agency, submitting a report to the Departments of Finance and Housing and Community Development. The public hearings and subsequent reports to all agencies will include, among other items, the following:

- Descriptions of blight remaining in the Project Area
- Description of non-blighted areas
- Projects or programs that will eliminate blight
- Relationship between costs of projects and amount of the increase in the Cap

Reports and items that are necessary to complete these requirements include: economic analysis, special legal counsel, engineering surveys and advertising for hearings and notices by certified mail to every property owner, resident and business in the Project Area. CCDC estimates the total cost to complete this submission to be \$500,000 and may take 12-18 months to complete. Figure 4 outlines the projected budget for the \$500,000.

⁶ Information provided via staff report to CCDC Board of Directors. “Amendment to the Centre City Redevelopment Plan – Centre City Redevelopment Project”. January 21, 2010

| Figure 4: Draft Budget for Development of Amendment | |
|---|------------------|
| Consultant / Scope | Budget |
| Kane, Ballmer & Berkman – legal review of blight findings and financial feasibility; consultations with taxing agencies; preparation of City Council resolutions and ordinances; participation at public meetings; CEQA documentation. | \$95,000 |
| 3D Visions (3DV), subconsultant to KMA - parcel-level survey to determine if significant blight remains within the Project Area (approximately 5,900 parcels to be studied). | \$123,000 |
| Keyser Marston Associates – oversee and coordinate work by 3DV; create maps depicting key blighting conditions; analyze financial feasibility of amending existing Redevelopment Plan; documentation of anticipated expenditures and a projection of potential financing sources; preparation of a cash flow projection over the anticipated life of the Project Area to demonstrate project feasibility. | \$37,000 |
| Keyser Marston Associates – identify the taxing agencies for the Project Area; prepare one draft and one final version of the Preliminary Report | \$40,000 |
| Keyser Marston Associates - prepare one draft and one final version of the Report to the City Council prepared in accordance with the requirements of CRL Sections 33333.11(h) and 33451.5; summary of consultations with the affected taxing entities, including the agency’s written response to any concerns raised in writing by any affected taxing entities, residents or community organizations; and a summary of consultations with residents and community organizations. | \$20,000 |
| Keyser Marston Associates - prepare an adoption schedule and coordinate with staff, the EIR consultant, civil engineer and legal counsel on upcoming actions; attend meetings with the County (or other affected taxing agencies) to discuss issues of blight and financial feasibility; assist in conducting public information meetings; attend meetings or make presentations to the Agency, City Council, CCDC Board and/or Planning Commission upon request. | \$34,000 |
| Reimbursable Expenses | \$31,000 |
| Other Possible Consultants/expense TBD – geotechnical; public health; remediation, public notices, mailings etc. | \$70,000 |
| Contingency | \$50,000 |
| Total Estimated Budget | \$500,000 |

Policy Discussion:

IBA Analysis

On April 23, 2010, the Independent Budget Analyst Office (IBA) issued a report responding to a request by Councilmember DeMaio for the IBA to work with CCDC to provide a fiscal analysis of a potential cap increase. Councilmember DeMaio specifically requested the IBA assess the General Fund impact of the following options with additional questions:

1. Increasing CCDC’s tax increment limit
2. Keeping the tax increment as-is
3. Eliminating CCDC before the current tax increment cap is reached

4. What is the value of General Fund revenues for the next seven fiscal years that are being diverted from the General Fund to CCDC project areas?
5. If CCDC's tax increment were increased, what is the value of revenue that would be diverted from the City's General Fund, and during which fiscal years?

| Figure 5: Potential Impacts to General Fund | | | |
|--|--------------------------------|------------------------------------|----------------------------|
| Scenario | Payment to General Fund | Tax Sharing Payment to City | Total City Payments |
| No Cap Increase | \$999 million | \$36.7 million | \$1.04 billion |
| Cap Increase | \$487 million | \$240 million | \$727 million |

Source: IBA Analysis

The IBA's response outlined how much property tax revenue would be transferred into the City's General Fund under the various scenarios. Under the "no Cap increase" scenario, the City's General Fund would receive \$1.035 billion between FY 2011 and FY 2043, with \$948 million received between FY 2025 and FY 2043. Under the "Cap increase" scenario, the IBA assumed a hypothetical Cap of approximately \$9 billion, which is based on the total projected amount of tax increment that may be generated over the life of the redevelopment project. A total of \$727 million would be received between FY 2011 and FY 2043, with \$653 million generated between FY 2025 and FY 2043.

A third scenario reviewed by the IBA included the elimination of CCDC before the current cap is reached. Before the project area could be discontinued, \$406 million in outstanding tax allocation bonds and \$25 million in outstanding parking revenue bonds would need to be defeased. CCDC has stated the earliest the bonds could be paid off is FY 2019. Following the payments of these debts, additional obligations remain that have an impact on the elimination of CCDC, including repayment of Community Development Block Grant funding and Grantville settlement payments.

Finally, the IBA stated moving forward with the analysis will allow CCDC to conduct a more thorough review to determine appropriate projections related to assessed valuations and other various financial projections.

CCDC staff has responded to the IBA analysis by stating the analysis did not include additional sales tax and transient occupancy tax (TOT) that have been created due to additional projects and are allocated to the General Fund. CCDC used one-half of the average annual sales and TOT tax revenues to provide an estimate of \$320 million in additional dollars that could be generated by increasing the cap.

Completion of Additional Projects

While CCDC has plans in place to allocate the remaining \$386 million in funds, this amount will not be enough to complete the Community Plan that has been adopted. These projects include additional parks, public improvements within various communities, and the completion of fire stations within the area. At this point, it is unclear as to the amount of funding that will be needed to complete the remaining projects within the Plan.

The identification of these additional projects may also have an impact on the amount of the Cap extension. Once

CCDC receives approval and funding from the Redevelopment Agency to begin the process, these projects and the appropriate funding needs will be identified and presented to the Redevelopment Agency.

| Figure 6: Current Capital Improvement Program Funding Allocation | |
|---|------------------|
| Parks & Open Space | \$83,107 |
| Fire Stations | \$56,380 |
| North Embarcadero | \$78,965 |
| C St Corridor Improvements | \$23,000 |
| Columbia/Core Public Improvements | \$505 |
| Cortez Public Improvements | \$2,000 |
| East Village Public Improvements | \$5,400 |
| Gaslamp Public Improvements | \$540 |
| Horton Project Public Improvements | \$12,310 |
| Little Italy Public Improvements | \$2,200 |
| Areawide Public Infrastructure | \$53,075 |
| Areawide Business Attraction & Economic Development | \$4,500 |
| Community Plan Implementation | \$6,900 |
| Land Acquisition & Remediation | \$5,000 |
| Plans & Studies | \$3,250 |
| Public Art | \$500 |
| Social Services CIP | \$3,000 |
| Consultant Costs | \$17,000 |
| Cost Escalation | \$28,868 |
| Total | \$386,500 |

General Fund Responsibilities

As the projects within the Community Plan are completed, the service costs become the obligation of the General Fund. If the Cap is not increased, funding for the infrastructure costs associated with each project will also need to be identified. One of the potential funding sources may be the City's General Fund. It is important to note that the Redevelopment Agency does have the authority to delay the construction of various projects within the project area. It would be prudent of the Agency to determine the resources needed of each project so they are operated efficiently once completed.

There has been much discussion regarding the amount of General Fund revenues that are being used to subsidize various projects within the Downtown area. In FY 2010, the City contributed \$9.4 million to cover the debt service of the second phase expansion, as well as \$3.9 million to cover the operations of the Convention Center. For FY 2011, the City is slated to contribute \$8.75 million to cover the debt service as well as \$3.4 million for operations. Additionally, CCDC has stated an increase to the Cap will allow CCDC to pick-up the costs associated with the Petco Park bonds until FY 2042, which CCDC has stated will save the City \$215 million during this time.