



THE CITY OF SAN DIEGO
INTERIM MAYOR TODD GLORIA

September 12, 2013

Judge Robert J. Trentacosta
Presiding Judge
San Diego Superior Court
220 West Broadway
San Diego, CA 92101

Re: Grand Jury Report: "Redevelopment is Dead! Long Live Redevelopment!"

Dear Judge Trentacosta:

Pursuant to California Pena Code Section 933.05(a),(b) and (c), the City of San Diego provide the following joint responses from the Interim Mayor and City Council to the findings and recommendations in the above entitled Grand Jury Report:

FINDINGS

Finding 01: Continued redevelopment in San Diego is desired and is important for the future growth and economic vitality of the City.

Response: The City agrees with the finding.

Many of the City's urban neighborhoods continue to lack adequate infrastructure, parks and open space, and community facilities including public safety, quality jobs and housing near public transit, affordable housing, homeless facilities, social services and medical clinics, incentives for small business, quality schools, neighborhood-serving retail, arts and culture, and safe streets for pedestrians and biking.

While redevelopment has been eliminated, the need for neighborhood investment certainly has not. Encouraging smart growth and urban infill development, particularly in older neighborhoods and communities that did not benefit from redevelopment as previously constituted is essential to the City's ability to efficiently accommodate population and employment growth. The City is exploring new tools for community and economic development of neighborhoods via its new Planning and Neighborhood Restoration Department, Civic San Diego, and the San Diego Housing Commission.

Finding 02: A vigorous effort will be required to identify new funding sources and compete successfully for the money to fund the many projects that are ready for development.

Response: The City agrees with the finding.

Tax increment financing, a local funding tool currently used in 48 states, was a predictable and reliable revenue stream against which bonds could be issued to fund significant neighborhood improvements, preserve historic buildings, remediate contaminated properties, produce and preserve affordable and homeless housing, expand social service facilities, and attract private investment. The City is committed



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to employing a thoughtful, dedicated and coordinated effort to explore new funding options, assess which options may be appropriate for each community's needs, and secure funding for future neighborhood revitalization projects and programs. Civic San Diego has already made significant progress in identifying and securing new funding such as the New Market Tax Credit (NMTC) program and the proposed creation of the transit-oriented public-private investment fund.

Finding 03: Because Civic San Diego lacks sufficient qualified staff, it does not have the capacity to compete successfully for funds from these new sources, but it is well positioned to utilize such funds effectively if they can be obtained.

Response: The City partially disagrees with the finding.

Several Civic San Diego staff members have significant public and private sector experience in securing public and private forms of equity and debt, bond underwriting and issuance, formation of assessment districts, preparing grant applications, and attaining various forms of tax credits.

Civic San Diego's corporate, nonprofit structure uniquely positions the organization to expediently respond to opportunities and secure a variety of new investment sources. This is evidenced by Civic San Diego's recent allocation of \$35 million in NMTCs. Civic San Diego staff retained a highly qualified consultant with a proven track record of applying for, and receiving, hundreds of millions of dollars in NMTC allocations to assist with its qualification, application and lending processes. However, as more funding sources and viable projects or programs are identified, Civic San Diego may need to hire additional staff or bring on additional consultants to manage the responsible investment of the funds.

Finding 04: By examining RDAs outside of California, a new revenue model could be identified for Civic San Diego to replace the tax increment funds the State diverted.

Response: The City agrees with the finding.

Civic San Diego has, and continues to research funding sources used in other states to finance community and economic development and meet with model agencies from other cities to identify best practices. While no single funding source can replicate the amount of a predictable and reliable revenue stream as generated by tax increment financing, Civic San Diego is working to secure a variety of funds in the forms of grants, tax credits and other equity, and debt that can be used to support neighborhood revitalization projects and programs, particularly in areas adjacent to transit stops and corridors. The objective is to provide efficient access to a variety of general and purpose-driven funding sources for site assembly, infrastructure improvements, public-private partnerships, and economic development programs. These funds may be leveraged, in communities where appropriate, with revenues from special assessment districts, Development Impact Fees, land value recapture mechanisms, or similar special districts.

Finding 05: The Governor of California and the State Legislature have an ethical responsibility to assure that the items that legitimately comprise redevelopment debt are paid out of tax increment revenues. The provisions of Proposition 18 and AB 26 clearly establish this responsibility.



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Response: The City agrees with the finding.

Successor Agency staff are diligently working with the State Department of Finance (DOF) to ensure that responsible obligations of the Successor Agency are funded. In addition, as discussed in more detail in the Response to Recommendation 13-2, the City and Successor Agency have filed several lawsuits against the DOF to challenge its denial of certain debt as financial obligations of the Successor Agency.

Finding 06: The citizenry of San Diego need to remain informed and alert to the actions of the State regarding redevelopment debt. The impact of these actions on the City of San Diego is of particular concern to its citizenry. A means must be found for the citizenry to communicate their concerns to Sacramento effectively.

Response: The City agrees with the finding.

San Diego's local representatives in the State Legislature are an important avenue for San Diego citizens to voice their concerns regarding the dissolution of redevelopment and the wind-down process. Successor Agency staff have been communicating with these representatives and have provided several of them with a list of recommended amendments to the dissolution legislation, included as Attachment 1, that would improve and expedite the wind-down process while providing greater benefits to the local communities without negatively impacting the State or other taxing entities. However, there are many issues and concerns that need to be communicated to the State Legislature, and the City needs to have an effective lobbying firm in place to assist in these efforts. This is particularly important given the resolution passed by Council on July 23, 2013 to support proposed State legislation that encourages economic development, affordable housing, and ending homelessness.

The City has not had a lobbying firm to represent its interests in Sacramento or Washington since January 2013 when the City's previous contracts with its state and federal lobbyists were terminated by former Mayor Bob Filner. Since that time, the City Council repeatedly requested information regarding when professional lobbyists would be engaged to represent the City's interests. In August 2013, then Council President Todd Gloria and Councilmember Lori Zapf sent memoranda to Mayor Filner requesting an update and expressing great concern that the lack of professional representation could have a major impact on the City's finances.

With Mayor Filner's resignation effective August 30, 2013, Council President Todd Gloria has become the Interim Mayor for the City. Interim Mayor Gloria and the City Council are committed to expeditiously engaging professional lobbyist services in both Sacramento and Washington. In addition, a delegation of City Council Members and San Diego Chamber of Commerce representatives are going to Sacramento in October 2013 to lobby for the City's interests.

It is also important to note that in late 2012, Civic San Diego created a new website (www.sandiegooversightboard.com) that provides interested individuals with all updates and communications from the State DOF; San Diego Oversight Board meeting dates and agendas, actions, and decisions; and schedules containing the status of all real properties and projects that are affected by the redevelopment dissolution process.



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Finding 07: The Mayor and City Council need a means of communicating to the Governor and the Legislature in an impactful manner the adverse consequences of the dissolution and the burden of redevelopment debt on the City of San Diego.

Response: The City agrees with the finding.

As noted in the City's response to Finding 06, San Diego's local representatives in Sacramento and the resources of a lobbying firm to represent and advocate for the City's interests are both critical to help the Mayor and Council communicate the challenges and impacts the City is facing due to redevelopment dissolution. Successor Agency staff have been working diligently and cooperatively with the State DOF to minimize the adverse impacts. However, there are many significant issues that need to be communicated to the State Legislature, and Interim Mayor Gloria and the City Council are committed to expeditiously engaging an effective lobbyist to assist in this effort.

Finding 08: Despite the stated intent of AB 26 to pay the obligations out of tax increment funds, approval to pay the obligations is not automatic. Rather, it is subject to a multi-tiered approval process that has become contentious. This process creates uncertainty and difficulty for cities in planning budgets, and requires reserves far beyond the ordinary.

Response: The City agrees with the finding.

The City Attorney's Office, working with Civic San Diego, has developed a list of problems, ambiguities, and conflicts in language within the dissolution legislation that have been the root of many of the disagreements with the State DOF. This list is included as Attachment 1. These legislation problems have resulted in adverse impacts on the City's budget due to the denial of funding for various enforceable obligations of the former redevelopment agency. In addition, many properties of the former redevelopment agency are currently sitting fallow, creating blight and becoming locations of criminal activity and unsafe conditions in urban neighborhoods.

The list—which includes recommended changes to the legislation that would likely resolve many of the conflicts—has been provided to several members of the State Legislature for consideration but thus far no legislation changes have been adopted. Interim Mayor Gloria and the Council are committed to expeditiously engaging effective lobbying firms to represent and advocate for its interests. This is particularly important given that redevelopment dissolution and wind down and the need for a continuing source of revenue for neighborhood revitalization and economic development are issues that could have a significant impact on the City.

Due to items disallowed on previous Recognized Obligation Payment Schedules (ROPS), the potential "clawback" of previous payments made under agreements between the City and former RDA that have been disallowed, and other potential future impacts, the City believes it is fiscally responsible to maintain reserves to mitigate such risks to the City's General Fund.

Finding 09: The ROPS process involves extensive lists of obligations that must be prepared and submitted in compliance with firm deadlines and formatting requirements established by the DOF.



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The complexity of the process creates the possibility of costly omissions and errors and the rejection of items for minor deficiencies.

Response: The City partially disagrees with the finding.

The City agrees that the ROPS process is very complex but believes that Successor Agency staff have developed processes and procedures to minimize the occurrence of costly errors. The dissolution legislation stipulates that any payment related to an enforceable obligation must be listed on a ROPS, which include projections prepared up to a year in advance of the anticipated expenditure. Thus, it is critical that all anticipated expenditures be accurately reflected on a future six-month ROPS. The DOF has not approved a process to pay for unexpected expenditures that cannot be reasonably foreseen or inadvertently omitted. Required payments not accurately reflected on an approved ROPS can result in project delays or legitimate work not being performed. While these instances are rare, they can occur. Civic San Diego staff conducts multiple levels of review and quality control on the preparation of each ROPS to minimize these occurrences. Each ROPS is also presented to decision makers in at least three public meetings, with the ROPS posted online.

Finding 10: Civic San Diego has insufficient personnel to focus on both the ROPS process and other important responsibilities assigned to the corporation. Preparing and submitting ROPS is not the only task consuming the time of employees. Responding to items the DOF has disputed and to audit requests and findings is also distracting from the ability of Civic San Diego employees to focus on the full range of their duties.

Response: The City agrees with the finding.

The dissolution legislation provides insufficient funding to adequately manage the redevelopment wind-down process for many cities in California; the administrative cost allowance is only 3% of the Successor Agency distribution of Redevelopment Property Tax Trust Fund (RPTTF) monies. As a result of the limited funding provided in the dissolution legislation, the City had to reduce the number of staff dedicated to redevelopment activities by 60% in 2012. The legislation also fails to provide funding for a transition period for cities to identify substitute funding sources for neighborhood investment and economic development administration or community engagement. Despite these economic challenges and because of Civic San Diego's efficient operating structure and processes as well as staff's extensive knowledge about the ROPS projects, it has been able to competently perform all of the redevelopment wind down functions as well as perform its other duties as assigned by the City.

Finding 11: Because the ROPS approval process is likely to continue for 40 years or more, its time demands as well as the potential for costly errors and oversights cannot be ignored. These issues cannot be addressed effectively without additional qualified staff who can focus on ROPS preparation and submission.

Response: The City partially disagrees with the finding.

While the bond debt service may continue to require the preparation of ROPS for up to another 30 years or more, the ROPS preparation process is expected to significantly ease as many enforceable obligation



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projects are completed during the next three years. Civic San Diego is sufficiently staffed to accurately prepare future ROPS. Once many of the properties of the former redevelopment agency are approved by the DOF for transfer to the City, Civic San Diego staff will be well positioned and prepared to implement the many neighborhood revitalization projects that were planned for those sites, such as parks, fire stations, and new housing or mixed-use projects. However, the City recognizes that future additional staff may be required for Civic San Diego to secure new funding sources for neighborhood investment and economic development activities and implement projects and programs.

Finding 12: The Five-Year Work Plan held out a realistic hope of making substantial progress in reducing homelessness downtown.

Response: The City agrees with the finding.

The City agrees with the finding. However, as noted in the Grand Jury report, the primary funding source in the Five-Year Work Plan to construct supportive housing and provide rental assistance and supportive services has been eliminated by the dissolution legislation. Although redevelopment dissolution ended an important source of funding for the homeless, Civic San Diego, the Housing Commission, and the City continue to aggressively pursue other public and private funds to house the homeless.

Finding 13: The present state of homelessness in the City heavily detracts from the urban renewal progress San Diego has achieved.

Response: The City agrees with the finding.

Addressing homelessness is an important component of urban renewal and economic development. Redevelopment, through tax increment financing, provided the City with significant annual revenues to finance the production of interim and permanent supportive housing units dedicated to homeless individuals and families. Many of the City's homeless housing projects recently completed or currently under construction would not have been possible without redevelopment. This includes Connections Housing, 15th and Commercial, COMM22, Celadon at Ninth and Broadway, and Cedar Gateway. In fact, since 2009 more than 311 homeless units have been constructed and more than 100 are currently under construction. These projects have been made possible through an effective partnership between the City, the San Diego Housing Commission, Civic San Diego, and the County of San Diego.

In May 2013, the City Council approved Civic San Diego's Affordable Housing Master Plan, which when implemented will provide an estimated 400 additional homeless units in the City with the limited housing resources remaining from the dissolution of redevelopment. In addition, in June 2013 the City Council approved the Mayor's budget proposal to extend the operations of the Emergency Homeless Shelter and the Veterans' Shelter.

The City, Civic San Diego, and the San Diego Housing Commission remain active partners on the Executive Leadership Committee in the Campaign to End Downtown Homelessness where, each month, the regions leaders in homeless funding, services, and housing work toward new creative solutions and track progress being made. In the near future, a new reliable and permanent funding source for affordable



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and homeless housing production will need to be identified. The issues surrounding homelessness are complex and require a comprehensive federal, state and local package of solutions. Interim Mayor Gloria and the Council are committed to expeditiously engaging professional lobbying firms to represent and advocate for the City's interests in Sacramento and Washington and help to develop this package of solutions.

Finding 14: A means must be found to continue the construction of supportive housing and keep the Five-Year Work Plan active.

Response: The City agrees with the finding.

The Five-Year Work Plan assumed the availability and dedication of \$36.4 million in capital funding for "gap" subsidies and more than \$13 million per year in combined rental subsidies and supportive services. That significant amount of financial resources is unlikely to be derived solely from local sources without tax increment financing or another dedicated annual revenue stream. The City, the San Diego Housing Commission, and Civic San Diego continue to monitor and support new State legislation that could create new, permanent, and reliable funding sources dedicated to local affordable housing production and preservation, including supportive housing. In addition, Interim Mayor Gloria and the Council are committed to expeditiously engaging professional lobbying firms to advocate for the City's interests in support of State legislation that could create new funding sources.

In May 2013, the City adopted the Affordable Housing Master Plan prepared by Civic San Diego that provides a specific action plan for maximizing future affordable housing production with the limited resources remaining from redevelopment's dissolution. A priority of the plan is the production of additional supportive housing for homeless individuals and families.

Finding 15: Information regarding the status of legacy redevelopment projects, the ROPS process, and the other activities of Civic San Diego is difficult for the public to obtain, resulting in a lack of transparency.

Response: The City partially disagrees with the finding.

Information on redevelopment dissolution is available through a number of resources, including open meetings and websites. However, the dissolution legislation does not provide the funding needed to conduct community outreach and engagement comparable to the level provided before dissolution. Information on redevelopment dissolution, including project updates can be obtained by attending Oversight Board meetings, which are all noticed and open to the public. In addition, Civic San Diego created a new website in late 2012 for the posting of all information related to the dissolution of redevelopment (www.sandiegooversightboard.com). The site contains agendas and minutes from Oversight Board meetings as well as lists, which are updated quarterly, of the status of all former redevelopment projects and real properties owned by the former agency. Links to these lists are also provided on the Civic San Diego website (www.civicsd.com).



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The City recognizes that, due to the absence of funding provided through the dissolution legislation and the elimination of its entire Communications department, Civic San Diego does not have adequate outreach personnel or other resources to conduct sufficient community outreach and engagement comparable to the level provided prior to redevelopment dissolution. Civic San Diego is planning to optimize its limited resources to the greatest extent possible by using social networking, electronic newsletters, and conducting presentations at a limited number of community group meetings on a periodic basis to communicate the status of projects.

RECOMMENDATIONS

The 2012-2013 San Diego Grand Jury recommends that the Mayor of San Diego:

13-1: Lead a comprehensive, organized, sustained effort beginning September 30, 2013 to advocate for San Diego's interests in the ROPS approval process. In addition to the Mayor's personal leadership, this effort should include a broad spectrum of interested private citizens as well as the President of Civic San Diego. The goal of this advocacy effort is to communicate---in an impactful manner that draws the attention of the Governor and the State Legislators---the adverse consequences of the dissolution and the negative, contentious nature of the ROPS approval process.

Interim Mayor's Response: The recommendation has not yet been implemented, but will be in the future.

Under the leadership of the Interim Mayor, City Council, and City Attorney, the Successor Agency (City) and Civic San Diego are implementing a comprehensive, organized, and sustained effort to advocate for San Diego's interests in the Recognized Obligation Payment Schedule (ROPS) approval process. The Successor Agency Management Group, a working group formed to efficiently manage the redevelopment wind-down process, meets weekly to ensure the City's and communities' interests are being protected. The group is comprised of representatives from several offices and departments, including the Interim Mayor's Office, Comptroller's, Financial Management, Economic Development, City Attorney's Office, and Office of the Independent Budget Analyst as well as Civic San Diego.

Among other things, this working group discusses the upcoming ROPS preparation and approval process, prepares for meet-and-confer sessions with the State Department of Finance (DOF) to challenge its denial of certain enforceable obligations, evaluates potential legal remedies when the meet-and-confer session is unsuccessful, and preserves as many resources as possible for the communities to continue neighborhood revitalization efforts. For example, during the ROPS 3 process, the DOF initially denied five ROPS items (projects and agreements) submitted by the Successor Agency. Following the original denial, the Successor Agency challenged their denial through the specified meet-and-confer process. As a result, the DOF restored funding for three of these items. During the ROPS 4 approval process, of the six items initially denied, Successor Agency staff successfully convinced the DOF to fully reverse three denials and partially reverse one denial.

Needed reforms to dissolution legislation have been outlined in detail by the Successor Agency Management Group and provided to state representatives at their request. This list is included as



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Attachment 1. A few of these recommendations have been introduced in this legislative session and others may be forthcoming later. Interim Mayor Gloria and the Council are committed to expeditiously engaging a professional lobbying firm in Sacramento to effectively communicate these and future recommendations to the State Legislature.

13-2: As a last resort, be prepared to recommend legal action to require the State of California to pay the items on the ROPS that San Diego's Successor Agency has submitted to the DOF.

Interim Mayor's Response: The recommendation has been implemented.

After exhausting the administrative appeals process with the State DOF, the City and/or the Successor Agency have filed several lawsuits challenging adverse actions and determinations by the DOF with respect to enforceable obligations included on the ROPS and/or the dissolution process, including the following:

- City of San Diego v. Matosantos (Ballpark Bonds), Case No. 34-2013-80001364, filed on January 14, 2013, contending that the DOF improperly invalidated agreements related to Petco Park revenue bond debt service obligations;
- City of San Diego v. Matosantos (NTC Shoreline Improvements), Case No. 34-2013-80001409, filed on February 15, 2013, contending that the DOF improperly denied funding related to the Successor Agency's obligations under the Disposition and Development Agreement for the Naval Training Center (NTC) to construct certain shoreline improvements;
- City of San Diego v. Matosantos (Long Term Debt Agreement), Case No. 34-2013-80001410, filed on February 15, 2013, contending that the DOF improperly invalidated an agreement that memorialized preexisting debts owed by the former Redevelopment Agency (RDA) to the City related to the formation of various redevelopment project areas and implementation of various redevelopment activities over the course of many years;
- City of San Diego v. Matosantos (Administrative Expenses), Case No. 34-2013-80001411, filed on February 15, 2013, contending that the DOF improperly applied the dissolution laws in a manner that creates a funding shortfall for the Successor Agency's administrative expenses during the ROPS 3 time period;
- City of San Diego v. Matosantos (Housing Fund Due Diligence Review), Case No. 34-2013-80001454, filed on April 8, 2013, contending that the DOF improperly demanded that the Successor Agency make a payment of approximately \$13.3 million in allegedly uncommitted housing cash to the San Diego County Auditor and Controller for pro rata distribution to the local taxing entities;



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- City of San Diego v. Matosantos (Bond Proceeds), Case No. 34-2013-80001544, filed on June 26, 2013, contending that the DOF improperly refused to approve the Successor Agency's request to expend pre-2011 excess non-housing bond proceeds during the ROPS 13-14A time period on various capital improvement projects.
- City of San Diego v. Matosantos (NTC Section 108 Loan), Case No. 34-2013-80001556 filed on July 10, 2013, contending that the DOF improperly rejected the repayment obligation on the NTC Section 108 loan as an enforceable obligation.
- City of San Diego v. Matosantos (Harbor Drive Bridge), Case No. 34-2013-80001555, filed on July 10, 2013, contending that the DOF improperly refused to allow the Successor Agency to pay an invoice for construction management and inspection services performed by the City in connection with the construction of the Harbor Drive Pedestrian Bridge.

The 2012-2013 San Diego County Grand Jury recommends that by December 31, 2013 the San Diego City Council, acting as the Successor Agency:

13-3: Direct Civic San Diego to form a special working group that will give San Diego every competitive edge possible in identifying new funding sources and applying for the funds needed to continue redevelopment throughout the City.

City Council Response: The recommendation has not yet been implemented, but will be in the future.

With the support of the Interim Mayor and Council, Civic San Diego has been aggressively researching and pursuing potential new funding sources for neighborhood revitalization, affordable housing, and economic development since July 2012.¹ Part of the process of pursuing these new funding sources requires identifying the unmet needs of various underserved urban communities and developing an effective economic development strategy based on best practices. One of the most viable funding sources identified and proposed by Civic San Diego is the formation of a public-private investment fund which would be financed by a diverse mix of potential investors, such as large financial institutions, philanthropic organizations and foundations, and local governments. Successful models of such funds exist in many other cities.

The strategy for this fund would be to invest in several key urban transit corridors, primarily located in the City's underserved communities to improve infrastructure and the public realm and apply many of the same tools that attracted private investment and revitalization to Downtown, including a reliable and efficient planning and permitting process. This approach would require the City to amend Civic San

¹ Council provided \$250,000 from appropriated reserves to Civic San Diego to conduct economic development and neighborhood revitalization activities in FY 2013. An additional \$250,000 was included in Civic San Diego's budget for FY 2014 to continue these activities.



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Diego's consulting agreement with the City to provide enhanced planning and permitting authority in transit areas of targeted urban communities.² In addition to improvements to the physical condition of neighborhoods, the strategy also includes establishing "people-based" programs, such as childcare and workforce training, to promote economic growth and business stabilization.

In addition to its ongoing research of new funding sources and best practices, Civic San Diego plans to conduct one or more funding workshops during its public board committee meetings in the next few months. These workshops will include presentations by staff, experts, and specialized consultants on the details of various potential funding sources and strategies to attract private investment that will leverage City funds. To develop a comprehensive solution that incorporates the views of community stakeholders, Civic San Diego will engage and collaborate with the City's new Planning and Neighborhood Restoration Department, the Urban Land Institute (ULI), community development entities, environmental justice organizations, labor and housing advocates, and Business Improvement Districts. From these workshops and collaborations, Civic San Diego will develop a strategic plan to pursue and secure new funding sources for neighborhood revitalization and economic development in targeted areas of the city and identify how those funds will be used.

As discussed in the Response to Recommendation 13-7, the City is developing a comprehensive approach to neighborhood revitalization and economic development, and Civic San Diego's role is evolving as part of this approach. The City's comprehensive approach, including Civic San Diego's strategic plan and newly defined roles, are expected to be complete by the end of 2013.

13-4: Direct Civic San Diego to begin surveying redevelopment agencies in other states to identify a revenue model that does not depend on property taxes to support redevelopment.

City Council Response: The recommendation has been implemented.

During the past year, Civic San Diego staff has conducted significant research identifying alternative funding sources to tax increment financing. While 48 states allow for some form of tax increment financing, many only permit its use on a limited basis and others leverage this financing with many other sources of funding. Part of Civic San Diego staff's research included participation in a forum sponsored by the University of Southern California's Price School of Public Policy in the summer of 2012, attended by some of the country's most successful community and economic development organizations. In addition to Civic San Diego, participants included representatives from the New York City Economic Development Corporation, the Capitol Riverfront Business Improvement District, faculty and staff from the Price School and USC Lusk Center for Real Estate, representatives from several Community Development Financial Institutions and several national banks, the City of Austin Economic Growth and

² Council has requested that Civic San Diego bring such an amendment forward, most recently during the FY 2014 budget hearings. As discussed in the Response to Recommendation 13-7, Civic San Diego's role is evolving as part of the City's comprehensive approach to neighborhood revitalization and economic development. The City's comprehensive approach and strategy for Civic San Diego's newly defined roles are expected to be complete by the end of 2013.



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Redevelopment Services Office, the City Heights Community Development Corporation, World Business Chicago, Los Angeles World Airports and the City of Los Angeles, ULI, and regional real estate developers.

The primary purpose of the forum was to promulgate specific policies and actions which will assist local governments to develop new programs to promote job creation, grow revenues and improve the quality of life, particularly in the most distressed business and residential communities. Participants shared their most successful economic development projects as well as “lessons learned”. The group also discussed ideas for efficient organizational structures to attract funding and implement neighborhood revitalization, operating mechanisms and delivery models, planning tools to incentivize smart growth, and innovative approaches to affordable housing.

Staff has also studied numerous reports prepared by leading government and non-profit organizations that provide detailed information, including case studies, of funding sources for neighborhood investment and economic development. Civic San Diego staff has further researched those sources deemed most viable and applicable to San Diego’s urban neighborhoods through meetings with highly skilled and specialized consultants and participation in online seminars.

Examples of funding sources that are being explored thus far include:

1. the creation of a public-private investment fund to finance the development of transit-oriented projects in targeted urban communities funded by a diverse mix of potential investors such as large financial institutions, Community Development Financial Institutions (CDFI), philanthropic organizations and foundations, local governments, and public employee retirement funds;
2. Community Facilities Financing Districts;
3. federal, state and philanthropic grants;
4. New Market Tax Credits (NTMC);
5. State Green House Gas cap and trade auction proceeds;
6. social impact funds;
7. joint powers authorities;
8. federal and state transportation funds;
9. infrastructure financing districts;
10. special assessment districts;
11. land value recapture mechanisms;
12. Development Impact Fees;
13. credit enhancements or guarantees;
14. State infrastructure bank;
15. EB-5 financing;
16. residual property tax distributions to the City;
17. local affordable housing linkage fees; and
18. potential revenues from various proposed state legislation.



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Further research and development of an implementation strategy are planned for the first half of Fiscal Year 2014. Civic San Diego will then present the proposed plan to the Mayor and City Council for consideration. In the latter half of the fiscal year, staff will begin pursuing the sources identified in the plan and identifying potential projects for implementation.

13-5: Direct Civic San Diego to establish a ROPS Processing Unit that is solely dedicated to the preparation and submission of accurate and timely ROPS in compliance with DOF requirements.

City Council Response: The recommendation will not be implemented because it is not warranted. Successor Agency staff have found that given the workload, it is not practical, financially feasible, or necessary to dedicate staff solely to ROPS preparation. Staff of Civic San Diego's Finance Department are already devoted to the ROPS process, among other duties. To date, each statutory deadline by which ROPS must be filed has been met. While Civic San Diego Finance Department staff lead and coordinate the update process, data is provided by several other staff members including Neighborhood Investment project managers and planners. Successor Agency staff from several City departments also provide information and are involved in this process, including Public Works, Economic Development, Comptroller's Office, City Attorney's Office as well as the Interim Mayor and City Council.

13-6: Instruct Civic San Diego to keep the public informed about its actions in winding down the affairs of the dissolved RDA and its other activities. It should post this information on a website and keep it updated. This information should include:

- ***The progress of redevelopment projects;***
- ***The implementation status of the major plans developed by CCDC;***
- ***The total current debt and assets of the Successor Agency and the Housing Successor Agency; and***
- ***The ROPS submitted and any items rejected or being disputed by the DOF.***

City Council Response: The recommendation has been implemented.

In late 2012, Civic San Diego created a new website (www.sandiegooversightboard.com) that provides interested individuals with all updates and communications from the State DOF; San Diego Oversight Board meeting dates and agendas, actions, and decisions; and lists of the status of all real properties and projects that are affected by the redevelopment dissolution process. The site also contains the housing and non-housing Due Diligence Reviews (DDR), comprehensive audits of the former agency's financial records, that provide the reader with detail and summary reports of all assets and liabilities and debts of the former redevelopment agency, including those items that are considered enforceable obligations.

In addition, the websites of the former Centre City Development Corporation (CCDC), Southeastern Development Corporation (SEDC) and the City Redevelopment Division have been merged into one website (www.civicsd.com). Both the "Neighborhoods" section of the website (www.civicsd.com/neighborhoods.html) and the home page provide the public with links to information about the status and progress of former redevelopment projects as well as new initiatives being pursued by Civic San Diego. All information is arranged according to neighborhood.



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City Council decisions related to the Successor Agency and redevelopment dissolution are included on the City's website (<http://www.sandiego.gov/citycouncil/>). Materials include City Council agendas, actions, and minutes; staff reports and supporting documents; and video or streaming coverage of City Council meetings. In addition, the Office of the Independent Budget Analyst's website includes reports on dissolution and unwinding activities (www.sandiego.gov/iba/reports/redevdissolution.shtml).

The 2012-2013 Grand Jury recommends that by December 31, 2013 the San Diego Mayor and City Council:

13-7: Establish a formal program of soliciting and evaluating a wide range of ideas and suggestions to make the continued revitalization of San Diego possible. The strong encouragement and unequivocal support of redevelopment efforts that have characterized past City administrations should be continued.

City Response: The recommendation has not yet been implemented, but will be in the future.

The City is currently developing a comprehensive approach to neighborhood revitalization and economic development which will include the efforts of Civic San Diego, the City's newly recreated Planning and Neighborhood Restoration Department which is conducting community plan updates among other things, and other efforts. In developing this approach, the City is engaged in a discussion with important stakeholders and community organizations to determine the best course of action to ensure the continued revitalization of San Diego's neighborhoods. This effort includes consultation with ULI, the San Diego Council on Environment & Design, the Community Planners Committee and individual Community Planning Groups, and a wide variety of other stakeholders. In addition to the funding opportunities being pursued by Civic San Diego, various strategies are under consideration, including:

1. A greater focus by all City departments and Civic San Diego on neighborhoods located within the former redevelopment project areas and communities eligible to receive Community Development Block Grant (CDBG) funding;
2. A renewed effort by City departments to develop more effective community engagement strategies that reach more deeply and broadly into underserved neighborhoods. This effort is being undertaken especially the Department of Planning and Neighborhood Restoration, in collaboration with Civic San Diego and other important stakeholders, including local philanthropies and foundations.
3. Major reform of planning and permitting functions in underserved neighborhoods, especially those well-served by transit, so that desired development projects can be processed more quickly. These reforms could include the preparation of more detailed Specific Plans combined with Programmatic Environmental Impact Reports (EIRs) (as compared to the more general Community Plans historically prepared by the city) and expedited permitting once these Specific Plans are completed. One possibility would be to transfer these functions from the Department of Planning and Neighborhood Restoration and the Development Services Department to Civic San Diego.



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As noted in the City's response to recommendation 13-3, Civic San Diego has been researching and pursuing potential new funding sources for neighborhood revitalization and economic development; identifying the unmet needs of various underserved urban communities; and developing an effective economic development strategy based on best practices. It is important to note that Civic San Diego's role is evolving as part of the City's comprehensive approach to neighborhood revitalization and economic development.

In early 2013, former Mayor Filner tasked a committee of ULI (San Diego/Tijuana Chapter) to prepare a report of their recommendations for how Civic San Diego can best continue to advance and implement neighborhood revitalization; its relationship with the City; tools and authorities needed; and its abilities to attract private sector investment. The ULI report (dated June 21, 2013) is included as Attachment 2 to this report. The primary recommendations of the ULI report suggest that Civic San Diego:

1. Work collaboratively and integrate seamlessly with other City departments and agencies, including the new Planning and Neighborhood Restoration Department, Development Services, Public Works, Transportation & Storm Water, and the Housing Commission;
2. Primarily focus on the neighborhoods located within the former redevelopment project areas and CDBG-eligible communities;
3. Develop a comprehensive and effective community engagement strategy; and
4. Lead the preparation of specific plans, perform design review functions, shepherd projects through an expedited permitting process, and manage a variety of the City's funds and programs dedicated to underserved neighborhoods such as CDBG, parking districts, NMTC, grants, and special projects.

The ULI report suggested that Civic San Diego's efforts begin in one or two pilot locations.

The City's comprehensive approach for neighborhood revitalization and economic development, including a strategy for Civic San Diego's newly defined roles, is expected to be complete by the end of 2013, so that the City's mission for economic development and neighborhood revitalization continues effectively and efficiently.

13-8: Make funds available for Civic San Diego to hire additional personnel who have specialized knowledge and experience in identifying new funding sources, applying for the funds available, and a track record of success in getting such funds awarded.

City Response: The recommendation requires further analysis.

The resource needs for Civic San Diego and various City Departments involved in economic development and neighborhood revitalization activities will be assessed as roles, missions, and the strategic plan are developed in FY 2014. It is important to note that new funding sources from federal, state, regional and philanthropic sources are available and Civic San Diego is the only City entity positioned to secure many of these funds and expeditiously deploy them in targeted communities that have lacked public and private investment.



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Several Civic San Diego staff members have significant public and private sector experience in securing public and private forms of equity and debt, bond underwriting and issuance, formation of assessment districts, preparing grant applications, and attaining various forms of tax credits. While Civic San Diego's current staff may not possess specific expertise in every funding option that may be available, in some cases it is more cost effective to retain qualified consultants. Civic San Diego's corporate, non-profit structure uniquely positions it to expediently respond to opportunities and secure a variety of new investment sources that the City cannot. This is evidenced by Civic San Diego's recent allocation of \$35 million in NMTCs. Civic San Diego staff retained a highly qualified consultant with a proven track record of applying for and receiving hundreds of millions of dollars in NMTC allocations to assist with its qualification, application and lending processes.

Once the City and Civic San Diego have determined the transit areas that it will be granted and necessary enhanced planning and permitting authority to implement its community investment strategies, then the amount of funding needed for additional staffing can be quantified. This will be accomplished by December 31, 2013.

13-9: Adopt a new revenue model that will provide ongoing support for Civic San Diego to continue redevelopment.

City Response: The recommendation has not yet been implemented, but will be in the future.

The unanticipated dissolution of redevelopment is providing California cities with little time to make adjustments in how we continue to fund neighborhood revitalization and economic development, including the administration of redevelopment activities. During the past year, Civic San Diego has had several recent accomplishments in securing new funding. This includes a \$35 million allocation of New Market Tax Credits (NMTC); total of \$1,435,000 in SANDAG Smart Growth Grants; \$300,000 in SANDAG Active Transportation Grants; and \$190,000 in Community Development Block Grants (CDBG) in FY 2013. As noted in the City's response to recommendation 13-3, the development of a comprehensive strategic plan for future neighborhood revitalization and economic development activities is expected to be completed by December 31, 2013.

The City and Civic San Diego continuously monitor new proposed State legislation that could provide cities with new local funding opportunities. Based on Civic San Diego's Board of Directors recommendation, the City Council passed a resolution on July 23, 2013 to support proposed State legislation that encourages economic development, affordable housing, and ending homelessness. For example, Senate Bill 1 (Steinberg) - Sustainable Communities Investment Authorities Act could potentially provide tax increment financing for mixed-use transit-oriented development where affordable housing could be a significant component.

13-10: Make funds available for Civic San Diego to hire an Administrative Analyst who will be assigned to the ROPS Processing Unit. This Analyst should be assigned responsibility for creating procedures that support the systematic collection of data regarding the obligations due for payment and the compilation of this data in each ROPS.



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City Response: The recommendation has been implemented.

As noted in the City Council's Response to Recommendation 13-5, Civic San Diego has a financial analyst on staff that has been responsible for the development of each ROPS since early 2012. The organization has created procedures that support the systematic collection of data related to financial obligations due for payment in each ROPS. Civic San Diego accomplishes the various levels of review, quality control, approval, and oversight in full compliance with the detailed parameters of the dissolution legislation guidelines published by the State DOF.

13-11: Vigorously pursue Federal and State contacts to find the means and ways to keep the Five-Year Work Plan Toward Goal of Eliminating Homelessness in Downtown San Diego active and adequately funded.

City Response: The recommendation has not yet been implemented, but will be in the future.

The City, the City Attorney's Office, the San Diego Housing Commission, and Civic San Diego continue to monitor and support new State legislation that would create a new permanent, reliable funding source dedicated to local affordable housing production and preservation, which would include supportive housing. However, there are many issues and concerns that need to be communicated to the State Legislature, and the City needs to have an effective lobbying firm in place to assist in these efforts. This is particularly important given the resolution passed by Council on July 23, 2013 to support proposed State legislation that encourages economic development, affordable housing, and ending homelessness.

The City has not had a lobbying firm to represent its interests in Sacramento or Washington since January 2013 when the City's previous contracts with its state and federal lobbyist firms were terminated by former Mayor Bob Filner. Since that time, the City Council repeatedly requested information regarding when professional lobbyists would be engaged to represent the City's interests. In August 2013, then Council President Todd Gloria and Councilmember Lori Zapf sent memoranda to Mayor Filner requesting an update and expressing great concern that the lack of professional representation could have a major impact on the City's finances.

With Mayor Filner's resignation effective August 30, 2013, Council President Gloria has become the Interim Mayor for the City. Interim Mayor Gloria and the City Council are committed to expeditiously engaging professional lobbyist services in both Sacramento and Washington. While the City does not anticipate that the primary funding source (for example, tax increment) will be restored or replaced with an adequate and equivalent substitute at any time in the foreseeable future, professional lobbyist services in Sacramento are critical to represent the City's interests and move toward this ultimate goal. It is also important to note that a delegation of City Council Members and San Diego Chamber of Commerce representatives are going to Sacramento in October 2013 to lobby for the City's interests.

On May 13, 2013, the City adopted Civic San Diego's Affordable Housing Master Plan that provided a specific action plan for maximizing future affordable housing production with the limited resources remaining from redevelopment's dissolution, such as unobligated housing bond proceeds and real



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properties. A priority of the Affordable Housing Master Plan is the production of additional supportive housing for homeless individuals and families.

Under the current circumstances, Civic San Diego's efforts to identify new funding sources for affordable housing, neighborhood revitalization, and economic development are critical to the City. When one or more new significant and reliable funding sources are identified, the City will direct the San Diego Housing Commission and Civic San Diego to prepare a new work plan to end downtown homelessness for the City's consideration that can be realistically implemented within a defined period of time.

13-12: Establish as a major priority the construction of sufficient supportive housing units to meet the goal of the Five-Year Work Plan. Realistic annual goals should be specified and progress measured to keep this humanitarian crisis and blight upon our City in the forefront of our thinking and assure a sustained effort is made to achieve the five-year goal.

City Response: The recommendation will not be implemented because it is not reasonable.

The primary funding source included in the Five-Year Work Plan was tax increment financing, a revenue stream that is no longer available to the City. As noted in the City's Response to Recommendation 13-11, once new potential revenue streams from proposed state legislation or other sources have been identified, a new Work Plan will need to be prepared and considered by the Interim Mayor and City Council that can be realistically implemented within a defined period of time. It will also be important to reflect the adverse impacts that the dissolution of redevelopment has had on local affordable and homeless housing production.

In the interim, in May 2013 the City adopted the Affordable Housing Master Plan prepared by Civic San Diego which provides a specific action plan for maximizing future affordable housing production with the limited resources remaining from redevelopment dissolution. A priority of the plan is the production of additional supportive housing for homeless individuals and families. Implementation of the plan began in July 2013 with the City Council's approval of funding for two new downtown affordable housing projects—Atmosphere and Alpha Square—which will provide a total of 244 new units dedicated for the homeless or those at risk of homelessness.

Sincerely,

TODD GLORIA
Council President, Third District

TG:djs

**POTENTIAL LEGISLATIVE AMENDMENTS
TO REDEVELOPMENT DISSOLUTION LAWS – AB 26 AND AB 1484
(updated as of February 6, 2013)**

General notes:

*All section references below are to the California Health and Safety Code.

*Defined terms:

DOF = California Department of Finance

RDA = Redevelopment Agency

ROPS = Recognized Obligation Payment Schedule

RPTTF = Redevelopment Property Tax Trust Fund

Index of proposed legislative amendments by category:

- I. Sufficient Funds for Administrative Costs
- II. Sufficient Cash Flow for Enforceable Obligations
- III. Scope and Fulfillment of Enforceable Obligations
- IV. Time Period for Review of Decisions
- V. Role of Oversight Board
- VI. Expenditure of Bond Proceeds
- VII. Continued Applicability of Historical, Unmet Affordable Housing Obligations
- VIII. Interim Use of Properties Owned by Successor Agency
- IX. Long-Range Property Management Plan
- X. Reinstatement of Invalidated City/RDA Agreements
- XI. Reversal of Election to Serve as Successor Agency
- XII. Distribution of Residual Balance of RPTTF
- XIII. Miscellaneous

I. SUFFICIENT FUNDS FOR ADMINISTRATIVE COSTS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34171(a), (b)	<p>Commencing July 1, 2012, the administrative cost allowance is equal to only 3% of the RPTTF distribution to each successor agency’s Redevelopment Obligation Retirement Fund for payment of enforceable obligations. This cost allowance is not a sufficient source of funds to cover all of a successor agency’s reasonable administrative costs to ensure the orderly winding down of the former RDA’s operations. This situation is in stark contrast to the provisions of the RDA dissolution laws that guarantee 100% reimbursement of the costs incurred by the DOF, the State Controller, and the county auditor-controllers related to the wind-down process. To the extent that a city is expected to expend its own funds to pay for administrative costs of its counterpart successor agency, the State Legislature has imposed an illegal, unfunded State mandate in violation of Article XIII B, Section 6 of the California Constitution.</p>	<ul style="list-style-type: none"> • Clarify that the administrative budget is not limited to the administrative cost allowance, given that Section 34171(b) allows administrative costs to be paid from bond proceeds and from other sources aside from property tax • Confirm that the administrative cost allowance shall exclude costs incurred by the successor agency pursuant to any agreement or contract that qualifies as an enforceable obligation under Section 34171(d)(1)(E), and that such costs may be paid using RPTTF distributions shown in the ROPS • Provide for a greater administrative cost allowance than 3%, if non-RPTTF sources of funding are insufficient to cover the costs shown in the administrative budget; as an example, a more reasonable administrative cost allowance would be 5% of <u>all</u> payments to be made by the successor agency for enforceable obligations during the applicable ROPS period, regardless of whether those payments will be made using RPTTF or non-RPTTF
34171(b)	<p>The administrative cost allowance is calculated as 3% of the RPTTF distribution to the successor agency for payment of enforceable obligations. The amount of this RPTTF distribution may vary greatly from one 6-month period to the next 6-month period because payments on bond obligations are typically much larger in one 6-month period compared to the other 6-month period. When the bond payments are</p>	<ul style="list-style-type: none"> • As stated above, provide for a greater administrative cost allowance than 3%, if non-RPTTF sources of funding are insufficient to cover the costs shown in the administrative budget • In addition, allow the successor agency to collect a higher RPTTF distribution in one 6-month period to hold as a reserve for payment of administrative costs

	relatively lower, the RPTTF distribution for that 6-month period is likewise lower, and the administrative cost allowance is thus lower. Each successor agency will experience a relatively greater deficiency in funding for administrative costs during the 6-month period in which the administrative cost allowance is lower.	anticipated in the next 6-month period, and to retain any leftover administrative costs from one 6-month period and expend them during the next 6-month period
34171(b)	The current provision clarifies that the administrative cost allowance excludes litigation expenses, but does not address other costs of legal representation for the successor agency. The costs of legal representation are inherently not “administrative” costs, regardless of whether such costs pertain to litigation.	Clarify that the administrative cost allowance shall exclude all legal costs of the successor agency and that such costs may be paid using RPTTF distributions shown in the ROPS
34171(b), 34179(c), (n)	Section 34179(c) enables the oversight board to direct successor agency staff to perform work in furtherance of the oversight board’s duties and responsibilities. Section 34179(n) enables the oversight board to direct a successor agency to provide additional legal or financial advice for the oversight board’s benefit. Section 34171(b) clarifies that the administrative cost allowance excludes litigation expenses, but does not address the costs of legal representation for the oversight board. The costs of legal representation are inherently not administrative costs. Also, any independent legal or financial advice provided to the oversight board will benefit all of the constituent local taxing entities who have appointees on the oversight board, such that the local taxing entities should share in those costs on a pro rata basis.	<ul style="list-style-type: none"> • Clarify that the administrative cost allowance shall exclude costs incurred by either the successor agency or the oversight board related to the oversight board’s activities, and that such costs may be paid using RPTTF distributions shown in the ROPS • Clarify that the administrative cost allowance shall exclude the costs of legal and financial advice provided to the oversight board at its direction, and that such costs may be paid using RPTTF distributions shown in the ROPS
34171(a), (b), 34176(c)	No administrative cost allowance is clearly allocated for the benefit of the successor housing entity. To the extent that the successor housing entity or a counterpart city is expected to expend its own funds to pay for administrative costs of the	<ul style="list-style-type: none"> • Clarify that the administrative budget shall include the administrative costs of the successor housing entity created pursuant to Section 34176 • Clarify that the administrative costs of the successor

	successor housing entity, the State Legislature has imposed an illegal, unfunded State mandate in violation of Article XIII B, Section 6 of the California Constitution.	housing entity may be paid for by RPTTF distributions if included in the applicable ROPS
34171(a), (b), (d)(1)(A), 34177(n)	Section 34177(n) requires the successor agency to cause the preparation of an annual postaudit of the financial transactions and records of the successor agency by a certified public accountant. In addition, the covenants governing many outstanding bond issuances, which are enforceable obligations under Section 34171(d)(1)(A), require the successor agency to prepare regular audits or financial statements or disclosures.	<ul style="list-style-type: none"> • Clarify that the administrative cost allowance shall exclude all costs incurred by the successor agency to cause preparation of the annual postaudit, as well as any audits or financial statements or disclosures required by existing bond covenants • Confirm that all such costs may be paid using RPTTF distributions shown in the ROPS [note that the DOF has given this confirmation in the context of ROPS 3, but there are no explicit statutory provisions on this point]

II. SUFFICIENT CASH FLOW FOR ENFORCEABLE OBLIGATIONS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34177(a)	Under the current provision, the successor agency is required to make payments due for enforceable obligations, and the payments must be listed in the approved ROPS governing the applicable 6-month period. This provision does not address the common scenario in which payments cannot necessarily be predicted to occur within a specific 6-month period. For instance, the date of closing of a loan transaction, or the date of phased loan disbursements, under an existing contract cannot always be predicted with certainty. Also, the timing and amount of invoices for professional services cannot generally be predicted with certainty. If the circumstances prevent the successor agency from making the full amount of an estimated payment during a particular 6-month period, the statutory provisions are ambiguous	Clarify that the successor agency is permitted to retain unexpended funds from an approved ROPS and carry forward those funds to make the full amount of any estimated payments beyond the applicable 6-month ROPS period, rather than having to wait to include any planned expenditure of funds on a future ROPS

	regarding whether the successor agency can continue making the payments in the next 6-month period. The successor agency cannot operate in an orderly fashion and may be subject to late fees and accrued interest, for example, if it is unable to make the full amount of an estimated payment during the ROPS 2 period and then needs to wait until the ROPS 4 period in order to pay the remaining balance.	
34177(a), (m), 34177.5(i), 34179.5	For purposes of determining the amount of uncommitted cash balances payable to the county auditor-controller as a result of the two-part due diligence review, the DOF has generally considered cash balances to be “restricted” only to the extent that they are being held for payments shown in an approved ROPS. The DOF generally has not permitted cash balances to be shown as restricted beyond the approved ROPS period even if the cash balances are being held to pay for a valid contract (i.e., an enforceable obligation). In some instances, an existing, pre-AB 26 loan agreement requires the successor agency to show evidence of the availability all loan funds in a segregated disbursement account at the time of closing, and the developer and other lenders have refused to proceed with the closing in the absence of such evidence.	<ul style="list-style-type: none"> • Confirm that the successor agency is allowed to retain cash balances for payment of the entirety of the financial obligation that has been approved as an enforceable obligation in a ROPS, and that such cash balances are restricted and cannot be “swept” to the county auditor-controller • Alternatively, confirm that, if the DOF has issued a final and conclusive determination under Section 34177.5(i) for a particular enforceable obligation, or if the DOF has reversed its initial rejection of an enforceable obligation in a ROPS, the successor agency is allowed to retain cash balances for payment of the entirety of the financial obligation

III. SCOPE AND FULFILLMENT OF ENFORCEABLE OBLIGATIONS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34163(b), (c), 34177(a), (c)	Subdivisions (b) and (c) in Section 34163 state generally that the successor agency cannot enter into new, or amend existing, agreements, obligations, or commitments for any purpose.	<ul style="list-style-type: none"> • Clarify that the successor agency (and the successor housing entity, where applicable) is authorized to enter into new agreements, and

	<p>Subdivisions (a) and (c) in Section 34177 require the successor agency to continue to make payments due for enforceable obligations and to perform obligations required pursuant any enforceable obligation. It is difficult to reconcile the above statutory provisions in a factual context where the successor agency must enter into a new agreement, or an amendment to a pre-AB 26 contract, in order to fulfill the language or intent of the pre-AB 26 contract or to avoid breaching the implied covenant of good faith and fair dealing under that contract. By way of example only, in many pre-AB 26 contracts, the successor agency is prevented from unreasonably withholding, conditioning, or delaying the approval of assignments, time extensions, subordination agreements, and the like. Former RDAs typically addressed these scenarios by entering into a routine amendment to the existing contract.</p>	<p>amendments to pre-AB 26 contracts, in order to fulfill the language or intent of a pre-AB 26 contract, provided that the pre-AB 26 contract has been included as an enforceable obligation in a prior approved ROPS</p> <ul style="list-style-type: none"> • Confirm that any such new agreements or amendments do not require the approval of the Oversight Board or the DOF unless they involve any proposed increase or acceleration of the use of redevelopment funds to pay the underlying enforceable obligation
34171(d)(1)(A)	<p>Under the current provision, a successor agency may hold a reserve when required by a bond indenture or when the RPTTF distribution for the next 6-month period will be insufficient to pay all obligations due under the provisions of the bond. This provision does not address a situation in which the next RPTTF distribution will be insufficient to pay all enforceable obligations, regardless of whether they are obligations under existing bond covenants.</p>	<p>Clarify that bond debt service reserves are permitted when the next RPTTF distribution will be insufficient to pay all enforceable obligations in the approved ROPS, including those obligations under existing bond covenants</p>
34171(d)(1)(C)	<p>Under the current provision, certain costs related to employees who performed work on behalf of the former RDA shall be considered enforceable obligations payable from property tax funds. This provision is not specific regarding PERS liabilities.</p>	<p>Clarify that costs related to PERS liabilities for city or other public employees who performed work on behalf of the former RDA are enforceable obligations</p>
34171(b), 34171(d)(1)(F)	<p>Under the current provisions, an enforceable obligation includes the cost of maintaining assets prior to disposition, as well as litigation expenses related to assets or obligations. However, the amount of such costs and expenses is inherently difficult to predict on a forward-looking basis under the ROPS system. For instance, a</p>	<p>Confirm that the successor agency is entitled to include contingency line items in the ROPS, and to collect RPTTF distributions where necessary, to pay for property maintenance expenses, litigation expenses, and third party claims during the</p>

	<p>property may experience adverse, unforeseen situations, such as trespassing, vandalism, and graffiti, which need to be addressed promptly by the successor agency. Also, the successor agency may need to pursue litigation, or may be named as a defendant in litigation, or may need to pay unforeseen claims, after the ROPS has been prepared and approved. Moreover, expenses in known litigation may escalate beyond what the successor agency anticipated at the outset, through no fault of the successor agency. The DOF has rejected efforts by many successor agencies to create a contingency reserve to address these types of unforeseen events. The DOF also has refused to accept a revised ROPS after the semi-annual distribution of RPTTF monies has occurred. In the past, a former RDA could address unforeseen expenses by using cash reserves. In light of the true-up payment under Section 34183.5 and the two due diligence review payments under Section 34179.6, however, the successor agency will have little to no cash reserves.</p>	<p>upcoming 6-month period that are not reasonably foreseeable at the time of preparation of the ROPS; the amount of the contingency line items could be limited, such as 2% of <u>all</u> payments to be made by the successor agency for enforceable obligations during the applicable ROPS period</p>
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IV. TIME PERIOD FOR REVIEW OF DECISIONS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34177(m)	<p>The current provision requires the successor agency to submit each ROPS to the DOF in the manner provided for by the DOF. With respect to ROPS 3 and 4, the DOF has supplied the successor agencies with substantially altered templates for the ROPS only several weeks before the deadline for submittal of an Oversight Board-approved ROPS to the DOF. The DOF's delayed release of updated templates, without advance notice, has substantially increased the successor agency's workload in converting data from the old format and complying with the new format, and has placed</p>	<ul style="list-style-type: none"> • Require the DOF to supply each successor agency with any altered ROPS templates at least 60 days before the deadline for submittal of the Oversight Board-approved ROPS to the DOF • Provide that, if the DOF supplies any altered ROPS template in a tardy fashion, then the successor agency shall use best faith efforts to comply with the new template, but the agency and its counterpart city shall not be subject to any

	the agency and its counterpart city in jeopardy of incurring the severe monetary penalties (such as the \$10,000 per day fine on the city) for a tardy submittal of the Oversight Board-approved ROPS.	of the civil penalties for a tardy submittal of the ROPS to the DOF
34177(m), 34177.5(i)	Even where the DOF has approved line items for enforceable obligations in one ROPS, the DOF has consistently reserved the right to object to the same line items in a future ROPS. This approach has caused lingering uncertainty as to the future enforceability of numerous obligations, to the detriment of the successor agency and the third parties who have relied to their detriment on pre-AB 26 contractual obligations. The DOF has stated that a successor agency may petition for a final and conclusive determination under Section 34177.5(i), but there is no timeline for the DOF’s response to this petition, and the DOF has indicated that the petition will be given relatively lower priority compared to the review of ROPS documents and the two-part due diligence review.	<ul style="list-style-type: none"> • Confirm that, if the DOF has approved a line item for an enforceable obligation in ROPS 4 or any subsequent ROPS, the DOF cannot later object to that same line item in a future ROPS • Confirm that, if the DOF has reversed its initial rejection of an enforceable obligation in a ROPS due to the meet-and-confer process, the DOF cannot later object to that same line item in a future ROPS • Impose a reasonable time limit (such as 15 days) on the DOF’s response to a petition for a final and conclusive determination, and cause the petition to be deemed approved if the DOF fails to provide a timely response with an explanation for any denial
34179(h), 34181(f)	Section 34179(h) states that the DOF may review any action of the oversight board for a period of 40 days so long as the DOF communicates its intent to review the action within five business days after receipt of the oversight board’s action. Section 34181(f) states that the DOF may extend this review period by up to 60 days and that the absence of any objection within 60 days after the oversight board’s action means that the action will be considered final. The duration of the DOF’s extended review period is ambiguous, and the DOF should not be entitled to an extended review period of 100 days (i.e., 40 plus 60).	Clarify that the DOF’s authority to extend the review period means that the DOF may extend the 40-day period under Section 34179(h) for an additional 20 days, for a total review period not to exceed 60 days
34181(a), (f)	Section 34181(f) states that all actions taken by the oversight board under subdivisions (a) and (c) must be approved at a public meeting	Clarify that the public notice of at least 10 days applies only to the disposition of real property

	after at least 10 days' notice to the public. Section 34181(a) involves the oversight board's direction to the successor agency to dispose of all assets and properties of the former RDA, or to transfer ownership of certain governmental purpose assets to the appropriate public jurisdiction.	assets, not other assets of the former RDA
34182.5, 34186(a)	Section 34182.5 states that, at least 60 days before the date for allocation of RPTTF, the county auditor-controller may object to the inclusion of items in any ROPS that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items. Section 34186(a) states that the county auditor-controller may adjust the amount of RPTTF to be distributed to the successor agency based on a review of the reconciliations for the prior ROPS period shown in the current ROPS.	Clarify that any adjustments or objections by the county auditor-controller in response to the reconciliations for the prior ROPS period shown in the current ROPS must be provided in accordance with the timing and procedures described in Section 34182.5.

V. ROLE OF OVERSIGHT BOARD

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34179(e)	The oversight board is a local entity for purposes of the Ralph M. Brown Act. However, it is uncertain whether the oversight board has any legal basis to convene in closed session to discuss sensitive matters, such as litigation and real property negotiations, affecting the successor agency. The discussion of sensitive matters in open session, if no authority for closed session exists, could undermine the interests of the successor agency and the local taxing entities in certain situations.	<ul style="list-style-type: none"> • Clarify that the oversight board is authorized to meet in closed session in accordance with the Brown Act, and shall be treated as the same entity as the successor agency for the sole purpose of determining whether a closed session exception to the Brown Act applies in a given situation • Confirm that the successor agency's legal counsel and staff are authorized to meet with the oversight board in closed session, at the oversight board's request, as may be necessary to facilitate decisions involving litigation

		and real property negotiations
34179(e)	The oversight board is identified as a local entity for purposes of certain statutes. Otherwise, the legal status of the oversight board is ill-defined.	Confirm whether the oversight board can sue and be sued as a public entity in its own name
34181(d), (e)	The current provisions allow the Oversight Board to cause early termination or renegotiation of existing agreements if deemed to be in the best interests of the local taxing entities. These provisions do not provide any mechanism for the Oversight Board to add projects that may have been under negotiation or the subject of a funding resolution at the time of the enactment of AB 26, but did not reach the level of an executed contract before the enactment of AB 26.	Provide that, if certain projects were under negotiation or the subject of an approved funding resolution at the time of enactment of AB 26, the Oversight Board may add those projects as enforceable obligations to a future ROPS, without the need for the DOF's approval, so long as the Oversight Board makes a finding that the overall community benefits of the project outweigh any financial impacts to the local taxing entities.

VI. EXPENDITURE OF BOND PROCEEDS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34176(g), 34191.4(c)	The DOF has taken the position in some instances that a finding of completion is required before the successor agency may expend any excess pre-2011 housing bond proceeds at the successor housing entity's direction. However, Section 34176(g) does not indicate that a finding of completion is a prerequisite to the expenditure of housing bond proceeds. By contrast, Section 34191.4(c) confirms that a finding of completion is a prerequisite to the expenditure of non-housing bond proceeds.	Clarify in Section 34176(g) that a finding of completion is not a prerequisite to the expenditure of pre-2011 excess housing bond proceeds
34176(g), 34177(i),	As noted above, the current statutory provisions allow the expenditure of (i) excess pre-2011 housing bond proceeds before	Clarify that, upon the DOF's issuance of a finding of completion, bond proceeds issued between

34191.4(c)	the DOF's issuance of the finding of completion and (ii) excess pre-2011 non-housing bond proceeds upon the DOF's issuance of the finding of completion. These statutory provisions do not expressly allow the expenditure of bond proceeds issued between January 1 and June 28, 2011 (i.e., the date of enactment of AB 26). If these bond proceeds are not expended for their intended purpose, then the successor agency may be in violation of any pertinent bond covenants, may jeopardize the tax-exempt status of bonds, and may be forced to defease the bond obligation rather than using the bond proceeds for beneficial purposes in the local community, such as the elimination of blight or the production of affordable housing.	January 1 and June 28, 2011 shall be used for the purposes for which the bonds were sold if the bonds are either (i) obligations on which interest is excludable from gross income for federal tax purposes (i.e., tax exempt bonds); or (ii) obligations issued to finance programs, projects and activities which increase, improve and preserve a city's supply of low- and moderate- income housing available at affordable housing cost to persons and families of low or moderate income
34191.4(c)	The current provision is silent regarding the process for the successor agency to enter into new contracts for the expenditure of non-housing bond proceeds after the DOF's issuance of the finding of completion.	Clarify that the successor agency is authorized to enter into new contracts for the expenditure of non-housing bond proceeds, without having to obtain the approval of such contracts from the Oversight Board and the DOF, so long as the expenditure of the bond proceeds is shown in an approved ROPS

VII. CONTINUED APPLICABILITY OF HISTORICAL, UNMET AFFORDABLE HOUSING OBLIGATIONS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34163(c)(4), 34176, 34179.6, 33334.2 - .4 33334.16, 33413(b)(2)(A)(i)	In most instances, the city or the local housing authority has elected to serve as the successor housing entity under Section 34176(a) for purposes of performing the housing functions previously performed by the former RDA. The Community Redevelopment Law contains various obligations pertaining to the production of affordable housing under Sections 33334.2 through 33334.4, 33334.16, and 33413(b)(2)(A)(i), using 20% set-aside	<ul style="list-style-type: none"> • Confirm that historical, unmet statutory obligations for the production of affordable housing continue to apply despite the dissolution of former RDAs, and modify Section 34163(c)(4) to allow the successor agency to collect RPTTF

	<p>low and moderate income housing funds. AB 26 and AB 1484 are silent as to the continued applicability of these historical statutory obligations to the extent that the obligations remained unsatisfied at the time of the former RDA’s dissolution on February 1, 2012. AB 26 and AB 1484 do not expressly repeal any such obligations. However, AB 26 and AB 1484 effectively deprive the successor agency (or the successor housing entity, if applicable) of any funding source or revenue stream to satisfy any historical, unmet obligations for production of affordable housing that may continue to apply in the post-redevelopment era. For instance, Section 34163(c)(4) prohibits the former RDA and the successor agency from making any future deposits to the low and moderate income housing fund. Also, Section 34179.6 extracts any uncommitted housing cash (other than excess housing bond proceeds) from the successor agency for pro rata distribution to the local taxing entities. If any historical affordable housing obligations continue to exist but no designated funding source is made available to satisfy those obligations, then the State Legislature has effectively imposed an unfunded State mandate, in violation of Article XIII B, Section 6 of the California Constitution. The State and affordable housing proponents have a fundamental disagreement regarding the continued applicability of historical statutory obligations for the production of affordable housing, and this agreement is being litigated in a complex defendants’ class action brought by the Affordable Housing Coalition of San Diego County, designated as Case No. 34-2012-80001158 in Sacramento County Superior Court. This litigation is expected to be protracted and expensive, but could be resolved promptly through a simple legislative fix to the RDA dissolution laws.</p>	<p>distributions as may be necessary for the successor agency (or the successor housing entity, if applicable) to fulfill those unmet obligations, so long as the collection of RPTTF distributions for this purpose does not cause a funding shortfall impairing the successor agency’s ability to pay all enforceable obligations identified in each approved ROPS</p> <ul style="list-style-type: none"> • Alternatively, if the State Legislature is unwilling to provide an adequate funding source for fulfillment of the historical affordable housing obligations, then expressly repeal all such obligations and relieve the successor agency and the successor housing entity from ongoing compliance with those obligations, in order to avoid the imposition of an illegal, unfunded State mandate
34176(g), 33433	<p>As noted above, Section 34176(g) confirms that the successor agency may expend any excess pre-2011 housing bond proceeds at the successor housing entity’s direction before the DOF’s issuance of a finding of completion. The successor housing entity may wish to enter into a disposition and development agreement in which a housing real estate asset acquired with tax increment funds is conveyed to a nonprofit</p>	<p>Clarify whether Section 33433 applies to the successor housing entity’s disposition of a housing real estate asset for an affordable housing project at less than fair market value</p>

	<p>developer for an affordable housing project. In this scenario, it is unclear whether the successor housing entity must comply with Section 33433 pertaining to the disposition of assets pursuant to the redevelopment plan at fair reuse value, which is typically less than fair market value.</p>	
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VIII. INTERIM USE OF PROPERTIES OWNED BY SUCCESSOR AGENCY

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34163(b), (c)	<p>The current provisions generally prohibit the successor agency from entering into new contracts or commitments for any purpose. The DOF has indicated that these provisions prohibit the successor agency from granting temporary access for special events on properties of the former RDA. Historically, many RDA properties have been used on occasion, and on a temporary basis, for special events beneficial to the local community, such as multi-cultural fairs or public concerts or performances sponsored by nonprofit organizations.</p>	<p>Provide that the successor agency is authorized to grant temporary access to properties owned by the successor agency for special events benefiting or serving the local community, so long as the successor agency enters into a standard access agreement with protections in the successor agency’s favor, such as insurance and indemnification</p>
34163(b), (c), 34191.5	<p>The current provisions do not provide express authority for the successor agency to lease property for the generation of revenue pending the final disposition of the property. If the successor agency’s authority to lease its properties is not confirmed, many properties may be left idle and will not generate revenue for the benefit of the successor agency and the local taxing entities.</p>	<p>Confirm that the successor agency is authorized to enter into a lease of property owned by the successor agency pending final disposition of the property in accordance with the long-range property management plan, provided that the successor agency obtains fair market rent</p>

IX. LONG-RANGE PROPERTY MANAGEMENT PLAN

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34191.5(c)(2)(A)	<p>The current provision requires the successor agency to transfer a property to its counterpart city or county if the long-range property management plan identifies the property for future development and “directs the use or liquidation of the property for a project identified in an approved redevelopment plan.” It is unclear what is meant by the phrase “identified in an approved redevelopment plan.” Normally a redevelopment plan would contain general goals and objectives for future redevelopment activities within the applicable redevelopment project area, but would not provide details about future projects on specific sites. Nothing in the Community Redevelopment Law has required site-specific details about redevelopment projects to be included in a redevelopment plan. If the above phrase is interpreted narrowly, then relatively few projects would qualify as having been identified in an approved redevelopment plan, and local agencies thus could be deprived of one of the purported significant benefits of obtaining the finding of completion.</p>	<p>Replace the phrase “identified in an approved redevelopment plan” with broader language, such as “consistent with the categories of uses or any projects identified in either an approved redevelopment plan or an approved five-year implementation plan”</p>
34191.5(c)(2)(A)	<p>Section 34191.5(c)(2)(A) does not explicitly state whether the city or county must pay any monetary compensation to the successor agency in exchange for the successor agency’s transfer of property to be used for a redevelopment project. The statutory language and context seems to imply that no compensation is owed. For instance, the local retention of certain redevelopment properties has been described as one of the significant benefits of obtaining the finding of completion. If the city or county is required to pay monetary compensation, however, then this benefit would be eliminated or substantially reduced. In addition, Section 34191.5(c)(2)(B) appears to describe a distinguishable situation in which the proceeds of sale are distributed to the local taxing entities if a property is liquidated for any purpose other than to fulfill an enforceable obligation</p>	<p>Clarify under Section 34191.5(c)(2)(A) that the city or county is not required to pay any monetary compensation to the successor agency in exchange for the successor agency’s transfer of property to be used for a redevelopment project</p>

	or other than specified in Section 34191.5(c)(2)(A).	
34191.5(c)(2)(A), 33433	Upon the successor agency's transfer of a qualifying property, the city or county may wish to enter into a disposition and development agreement in which a non-housing real estate asset acquired with tax increment funds is conveyed to a developer for a redevelopment project. In this scenario, it is unclear whether the city or county must comply with Section 33433 pertaining to the disposition of assets pursuant to the redevelopment plan at fair reuse value, which is typically less than fair market value.	Clarify whether Section 33433 applies to the disposition of a non-housing real estate asset by the city or county for a redevelopment project at less than fair market value
34191.5(c)(2)(B), 34177.3(a), (b)	Section 34191.5(c)(2)(B) states that, if a property is liquidated or leased for any purpose other than to fulfill an enforceable obligation or other than specified in Section 34191.5(c)(2)(A), the proceeds from the sale or lease shall be distributed as general property tax to the local taxing entities. This language does not provide any funding source for the successor agency to negotiate the liquidation or lease of properties. The successor agency should be allowed to enter into enforceable obligations, payable from RPTTF distributions, in order to pay for costs associated with the liquidation or lease of properties for the financial benefit of all local taxing entities. Otherwise, the successor agency would be required to absorb all of the transaction costs, without any defined funding source, and the benefited local taxing entities would not pay their fair share toward the transaction costs.	<ul style="list-style-type: none"> • Provide that the successor agency is authorized to enter into enforceable obligations, payable through RPTTF distributions or other available funds shown in an approved ROPS, to pay for costs associated with the liquidation or lease of properties pursuant to Section 34191.5(c)(2)(B), including, but not limited to, costs for services or work related to appraisal, broker, legal, title, escrow, and pre-closing environmental remediation • Confirm that the <u>net</u> proceeds (after payment of all applicable transaction costs) of the sale or lease of properties pursuant to Section 34191.5(c)(2)(B) shall be distributed as property tax to the local taxing entities

X. REINSTATEMENT OF INVALIDATED CITY/RDA LOAN AGREEMENTS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34191.4(b)(1)	The current provision allows the reinstatement of invalidated loan agreements between the city or county and its counterpart former RDA, upon the DOF’s issuance of a finding of completion, subject to several onerous conditions and restrictions. It is unclear what is included within the scope of a “loan agreement” in this context. Many historical interagency debt agreements may have been structured as cooperation agreements or debt reimbursement agreements, rather than loan agreements. If the scope of a loan agreement is narrowly interpreted, then local agencies would be deprived of one of the purported significant benefits of obtaining a finding of completion.	Replace the reference to “loan agreements” with broader language, such as “any agreements, including, but not limited to, loan agreements, cooperation agreements, and debt reimbursement agreements, entered into on or prior to June 28, 2011, evidencing indebtedness owed by the redevelopment agency to the city, county, or city and county that created the redevelopment agency”
34191.4(b)(2)	One of the onerous restrictions imposed on reinstatement of invalidated loan agreements is the recalculation of accrued interest at the rate earned by funds deposited into the Local Agency Investment Fund (LAIF). The prevailing LAIF interest rates are similar to rates for money market accounts and have historically been far below the normal rates applicable to the borrowing of funds and the repayment of long-term debt. For instance, in 2011 and 2012, the LAIF interest rates have been routinely below one-half of one percent. When these low LAIF interest rates are applied retroactively to debt agreements that have existed for many years, the result is an inordinately substantial reduction in the outstanding amount of debt owed.	<ul style="list-style-type: none"> • Replace the reference to the LAIF interest rate with a rate that is more reflective of prevailing interest rates owed on any reinstated debt, such as a rate used by institutional banks for long-term loans • Alternatively, apply a reasonable flat interest rate, such as 6%, to any reinstated debt, which would greatly simplify the retroactive recalculation of accrued interest
34191.4(b)(2)(A)	Another onerous restriction imposed on reinstatement of invalidated loan agreements is the maximum annual repayment amount for all reinstated loans in the aggregate. The maximum annual repayment amount is calculated based on a formula that allows reinstated loan payments only up to 50% of the increase between (i) the residual balance distributions from	<ul style="list-style-type: none"> • Expressly exclude from the base year calculation any residual balance distributions to local taxing entities that occurred during the base year as a result of the true-up payment under Section

	<p>the RPTTF to local taxing entities during a given fiscal year, starting with fiscal year 2013-14, and (ii) the residual balance distributions from the RPTTF to local taxing entities during a “base year” of fiscal year 2012-13. This formula is based on the premise that the successor agency will need to pay a diminishing amount of enforceable obligations over the course of time and that, therefore, RPTTF distributions to the successor agency will gradually decrease, and residual balance distributions to the local taxing entities will gradually increase, in future fiscal years, relative to the first fiscal year after the former RDA’s dissolution. This premise is mistaken in many instances for at least two reasons. First, a literal interpretation of the statute might require the inclusion of any residual balance distributions made during the base year in the formula if those distributions occurred as a result of the “true-up” payment under Section 34183.5 (due by July 12, 2012) and the two payments of excess cash determined during the two-part due diligence review process under Section 34179.6 (scheduled to be paid in late 2012 and mid-2013, respectively). Second, in many instances, the successor agency held a significant amount of cash reserves that needed to be spent or “burned down” in the first several ROPS periods before the successor agency could request any RPTTF distributions, consistent with Section 34177(1)(1)(E). Both of these factors could substantially increase the amount of residual balance distributions during the base year with respect to former RDAs that retained a relatively larger amount of cash reserves at the time of their dissolution on February 1, 2012. In these instances, the residual balance distributions in fiscal year 2013-14 or later fiscal years will not exceed the residual balance distributions in the base year by at least 50% for a potentially long period of time, if ever. Consequently, the statutory formula unfairly and arbitrarily disadvantages any successor agency that has succeeded a relatively “cash-rich” former RDA, and deprives local agencies of one of the major purported benefits of obtaining a finding of completion.</p>	<p>34183.5 or either of the due diligence review payments under Section 34179.6</p> <ul style="list-style-type: none"> • Replace the existing statutory formula for maximum annual repayments on reinstated debt with a more equitable formula; one option is to allow an alternative option, at the successor agency’s discretion, for reinstatement of debt in fiscal year 2014-15 or beyond, using fiscal year 2013-14 (rather than fiscal year 2012-13) as the “base year”
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XI. REVERSAL OF ELECTION TO SERVE AS SUCCESSOR ENTITY

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34173(d)(1), (4), 34176(a)(1)	Section 34173(d)(4) allows an eligible entity that initially elected not to serve as the successor agency to reverse its decision and agree to serve as the successor agency upon 60 days' notice. This language only affects eight successor agencies throughout the State. In the vast majority of situations, the city or county that created the former RDA has elected to serve as the successor agency. However, the draconian provisions of AB 1484, as well as the State's heavy-handed enforcement of those provisions and the lack of sufficient funding for the successor agency's operations, have caused some cities and other local agencies to reconsider whether they wish to continue serving as the successor agency or the successor housing entity, or both.	<ul style="list-style-type: none"> • Confirm that a city, county, etc. can later rescind its initial election to serve as the successor agency by submitting a duly authorized resolution to the county auditor-controller • Confirm that a city, county, local housing agency, etc. can later rescind its initial election to serve as the successor housing entity by submitting a duly authorized resolution to the county auditor-controller

XII. DISTRIBUTION OF RESIDUAL BALANCE OF RPTTF

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34183, 34188	The semi-annual distribution of available RPTTF generally involves four tranches. In the first tranche, under Section 34183(a)(1), a taxing entity receives the amount of the contractual or statutory "pass-through" payments that it would have received had redevelopment continued. Some taxing entities (often counties) receive relatively larger pass-through payments, whereas other taxing entities (typically cities, and sometimes school districts) receive relatively little to no pass-through payments. In the second and third tranches, the successor agency receives the amount needed for payment of	<ul style="list-style-type: none"> • Clarify that the first and fourth tranches of RPTTF distributions under Section 34183 must be considered jointly, not in isolation, and that each local taxing entity must receive its target pro rata share of these two combined tranches in accordance with its AB 8 pro rata share of general

	<p>enforceable obligations and the 3% administrative cost allowance. In the fourth tranche, under Section 34183(a)(4), the residual balance of the RPTTF is distributed among the local taxing entities. A reasonable interpretation of Section 34188 is that the first and fourth tranches under Section 34183 must be considered jointly, not in isolation, and that each local taxing entity must receive its target pro rata share of these two combined tranches in accordance with its AB 8 pro rata share of general property taxes, wherever possible. The only way to achieve the target pro rata share is to offset any relatively larger distribution of a pass-through payment to a particular taxing entity in the first tranche against the amount of that taxing entity's residual balance share in the fourth tranche. In this way, all local taxing entities will receive their rightful pro rata share of the aggregate sum of the first and fourth tranches. Nonetheless, county auditor-controllers, and apparently the DOF, have interpreted the statutory provisions differently and have not allowed any offset against the fourth tranche distribution with respect to taxing entities that received a relatively larger first tranche distribution. This approach is inequitable and has awarded a significant windfall to taxing entities that receive relatively larger pass-through payments in the first tranche. In an ironic twist in some situations, the local K-12 school system has been deprived of a substantial sum of money as a result of the county auditor-controller's calculation method, even though AB 26 was initially touted as a way to transfer local redevelopment funds for the express benefit of local educational institutions and to relieve the State's budget crisis in light of the State's minimum educational funding obligation under Proposition 98 (and not to provide a windfall to the county or other non-educational taxing entities).</p>	<p>property taxes</p> <ul style="list-style-type: none"> • Clarify that, if the residual balance distribution is insufficient to allow each local taxing entity to receive its target pro rata share of the two combined tranches, then each taxing entity will receive the entire amount of its pass-through payment (if any) under the first tranche, and the distributions in the fourth tranche will be designed to allow each taxing entity to receive as close as possible to its target pro rata share of the two combined tranches
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XIII. MISCELLANEOUS

Pertinent Section(s)	Description of Issue or Problem	Potential Legislative Amendment
34179.6(f)	The current provision contains a mistaken cross-reference.	Clarify that the cross-reference to subdivision (c) is intended to be a cross-reference to subdivision (d)
34180(i)	The current provision contains a mistaken cross-reference.	Clarify that the cross-reference to Section 34178(b) is intended to be a cross-reference to Section 34178(a)



MEMO

Date: August 30, 2013

To: City of San Diego City Council

From: Tim Sullivan, Chair of the Board

Re: ULI San Diego/Tijuana White Paper – Using the Proven Tools of Civic San Diego to create Complete Communities

Our White Paper was prepared for former Mayor Bob Filner in June 2013 at his request to give him unbiased input on how the tools of Civic San Diego could be used to assist with the revitalization and investment of neighborhoods outside of Downtown. It was written as an informational piece and not meant in any way to advocate for the existence or not of Civic San Diego. We stand by the recommendations that we made for how to use Civic San Diego tools in the neighborhoods.

USING THE PROVEN TOOLS OF CIVIC SAN DIEGO TO CREATE COMPLETE COMMUNITIES

JUNE 21, 2013

THIS WHITE PAPER WAS DEVELOPED AT
THE REQUEST OF MAYOR BOB FILNER





June 20, 2013

The Honorable Bob Filner
Mayor of San Diego
202 C Street
San Diego, CA 92101

Dear Mayor Filner,

On behalf of the ULI Advisory Committee, I am pleased to present our recommendations for how to use the proven and successful implementation tools of Civic San Diego (formerly CCDC) to increase neighborhood engagement and investment. A team of ULI members met three times over the course of the last three months to develop these recommendations. Our focus became to avoid duplication with other city functions and departments. Our overall strategy can be summarized as follows:

- 1 The Geography for Civic San Diego should be former Redevelopment Project Areas and CDBG eligible communities. This comprises the majority of areas where market forces alone are unlikely to result in investment and revitalization.
- 2 The Role of Civic San Diego should be the City's transactional entity for community development in these targeted areas, including: NMTC, CDBG, grant application and management, parking district funds, management of consulting contracts for specific plans for villages and corridors, design review, CIP prioritization, affordable housing, grant programs (facade improvement programs for example), special projects, and an ombudsmen for selected public projects and private investments as they go through the approval process. Additional roles could be management of planning, CEQA, and development review only in Downtown – they could serve as an ombudsman/facilitator elsewhere.
- 3 Civic San Diego could be a member of a planning and development working group that reports to the Mayor with Planning, DSD, Public Works/Transportation, Housing Commission, and Mayor's Chief of Staff and Policy Team that meets together with Mayor every two weeks, chaired by the Chief of Staff or his deputy, or by the Planning Director.
- 4 Civic San Diego should also have the responsibility of developing a more inclusive community engagement strategy for projects and plans within their geography.

The attached White Paper is a more thorough analysis of these recommendations. We hope that this strategy will be of service to you and your team. Please feel free to contact me with any questions that you may have.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Tony Pauker', written over a horizontal line.

Tony Pauker
Chairman of the Board
619.247.3720

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STATEMENT OF PURPOSE

The purpose of this white paper is to outline how the Centre City Development Corporation (CCDC) and its successor agency, Civic San Diego model could be expanded to focus on urban and underserved neighborhoods that are unlikely to realize investment based on market forces alone. This model has proved effective to guide the revitalization of a declining Downtown into one of the West's most vibrant 24-hour cities. This was done with the involvement and buy-in of residents, businesses, and investors. A similar process could benefit other underserved neighborhoods.

In San Diego, we have very diverse communities, each having its own specific needs. What is needed and the optimal approach to achieve it will be different in San Ysidro from what is needed and the optimal approach for the College Area, Normal Heights, Encanto, Linda Vista, or Southeast San Diego. For example, a transit-oriented development (TOD) approach may work for one area, but would not be appropriate in an area where economic investment is most needed.

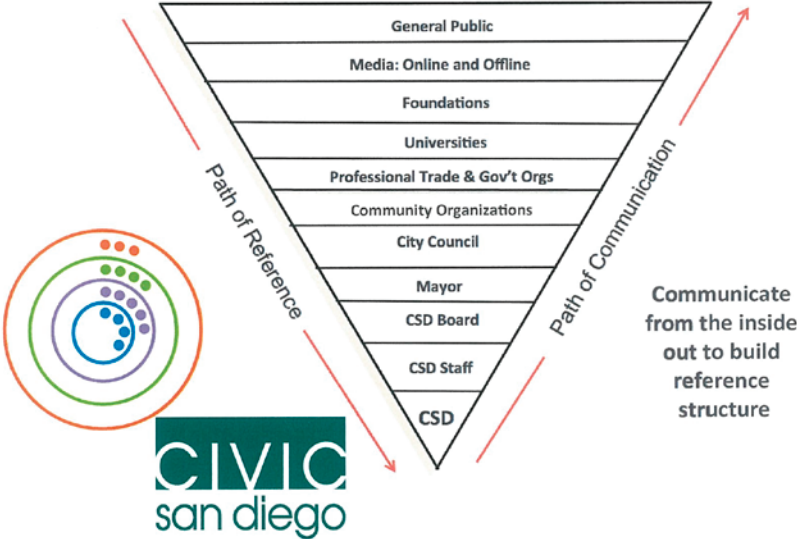
We have the opportunity to create in Civic San Diego an entity that can be a resource to all such communities and customize it to their needs. This goal may be best summarized as creating “complete communities.” The national organization Reconnecting America defines complete communities as “places where people can live, work, move, and thrive in a healthier, more equitable, and more economically competitive way.”

WHY CIVIC SAN DIEGO

Thirty Seven years ago the Centre City Development Corporation was established to help revitalization of Downtown San Diego. A major reason a separate public benefit corporation was created was to advocate long-term planning and solutions that maximize community benefit while insulating the communities from short-term political whims. This was coupled with tax increment financing that allowing for significant financial investment in Downtown.

Civic San Diego’s structure, a non-profit public benefit corporation wholly owned by the City of San Diego, has provided it with an entrepreneurial “can do” culture that finds creative solutions to community revitalization challenges. That same structure has insulated the organization and its implementation of long term projects from political influences and delays caused by changes in the City’s elected leadership. Civic San Diego has demonstrated its ability to act as a highly effective “bridge” between the public and private sectors for collaboration of resources, talent and expertise to positively transform neighborhoods. The background and expertise of its staff brings a unique skill set and talent to the formation of highly effective public-private partnerships that attract private investment to neglected communities, enhance the public realm, create quality public parks and open space, ensure high quality architecture and design, promote job creation, and generate revenues for the city.

CIVIC SD ECOSYSTEM MODEL



It created a “one-stop shop” where planning decisions, community engagement, infrastructure financing, economic development tools, and neighborhood promotion provided a process in which there was a clear set of goals for the community and a process of certainty for investors.

This focus and financial capacity of CCDC resulted in unprecedented investment that has been praised across the nation. Since the elimination of Redevelopment, Civic San Diego has become the successor agency to CCDC. Today, Civic San Diego is built on a successful 38-year performance that incorporates the proven ability to expedite City priorities for neighborhood revitalization. It is the entrepreneurial partner capable of orchestrating creative plans; securing funding sources, including statewide and national funds; and streamlining implementation processes in order to improve the economic and social well-being with a better-built environment citywide in San Diego.

Civic San Diego has the ability to leverage funding sources such as those identified in Section _ *Financing Mechanism*. Civic San Diego is capable of securing special funding sources that would attract and retain businesses, such as New Market Tax Credits, Health Food and Urban Farming Initiatives, Child Care Funding Programs, Arts and Cultural Funding Programs, Safe Routes to Schools Funding, and a number of other sources. While not as powerful as tax increment financing, these sources could help fill a current and future budget gap.

Civic San Diego has the ability to assist neighborhoods—and by extension the City Council and Mayor—in creating a business improvement district to maintain the newly created public realm. Civic San Diego is determined to perpetuate the prosperity that Downtown San Diego has seen during the era of redevelopment and extend it to the rest of the San Diego in a new era without the Redevelopment Agency. Civic San Diego has the creativity, experience, and proven track record so critical to successful underwriting from these financing sources for the benefit of the City of San Diego and its disadvantaged neighborhoods. Without the funding from Redevelopment, it is necessary to have a central entity capable of sifting through the changes in state policies and procedures; pairing the need with the correct funding sources.

Civic San Diego, like its predecessor CCDC, has used its proven entrepreneurial and organizational abilities to create opportunity and attract investment while serving the community as a public benefit organization with independently validated pro forma analysis on each project it approves. Civic San Diego’s proven success is attributable to the following factors:

- The ability to assemble parcels for commercial/mixed-use development and affordable housing; the City is limited to only public facilities projects. Civic San Diego can swiftly seize site acquisition opportunities as they arise.

- Act with Foresight– in a proactive position with long-range planning in mind– not reactive policy.
- A design review process that both has specific goals and is aimed at enhancing the public realm and public space.
- A streamlined process for consultant contracting and permitting approvals.
- Direct access to principals of Civic San Diego for the community and investors, improving the process.
- Access to economic and community development funding that cannot be secured or effectively used by the City (NMTC, public/private investment funds, philanthropic sources, EB-5, land value recapture, grants, CFDs, JPAs, IFDs, etc.).
- The ability to form creative public/private partnerships with extremely efficient and successful processes, legal documents, and a track record in negotiating needed community benefits.
- Ensure balancing the needs of the private sector and benefit for the surrounding neighborhood through independent analysis, quantifying and validating the public benefit associated with each project approval where a public subsidy or financing is provided;
- More nimble and flexible than the City due to its unique structure;
- Its role as a bridge between the public and private sectors.
- Excellent relationships with local and regional partners (County of San Diego, Veterans Affairs, San Diego Housing Commission, San Diego Regional Economic Development Corporation, San Diego Regional Chamber of Commerce, San Diego Workforce Partnership, Local Initiatives Support Corporation, Price Charities, Jacobs Foundation, San Diego Foundation, Environmental Health Coalition, Port of San Diego, San Diego County Regional Airport Authority, SANDAG, MTS, and local, regional, and national developers, etc.).
- A proven track record of advancing catalytic public improvement and public/private partnership projects that attract private investment.
- Acquire and assemble key parcels for engaging in public/private partnerships with competitively selected development teams for target uses appropriate to specific neighborhood needs. (As a public, nonprofit entity, Civic San Diego has minimal land carry costs because its properties are exempt from property taxes during the site assembly process.)

HOW TO MAKE IT WORK

The three key techniques CCDC and Civic San Diego have used to clearly define shared neighborhood goals and standards that will also encourage and stimulate neighborhood investment are Community Engagement, Specific Plans, and Financing.

Community Engagement: the key to transparency and creation of a shared goal that benefits all participants.

To create complete communities, a more comprehensive approach needs to be developed to encourage and obtain input and a corresponding buy-in from the community on the specific planning process. This requires commitment that is focused on inclusiveness, education and collaboration to achieve a balanced result.

Any program that seeks to bring investment to the City's neighborhoods must have community engagement. This includes not only local residents, but also businesses and outside developers, financiers and investors so that a clear set of goals and expectations is formed. CCDC—and, in turn, CSD—was the entity that helped foster this dialogue. Neighborhoods will be looking for leadership to assist them in filling the void left by dissolution of Redevelopment, and this will require collaboration and innovation to ensure that they continue to thrive economically. CSD can position itself now to be an integral part of the team as an asset to each neighborhood.

For example, the affordable housing mission components of a “realigned” CSD will be implemented in a largely new context. Neighborhoods and targeted areas outside the Downtown will have very different needs, interests, processes, and constraints. While CCDC may have ultimately engaged the Downtown effectively, the outlying neighborhoods will present a different challenge. CSD will not be operating from the established legal, policy, and program authority of Redevelopment. And many neighborhoods are far from the somewhat “blank canvas” that the Downtown was when redevelopment began. Success at a neighborhood scale will be based largely on collaboratively determining and satisfying the neighborhood's needs as part of the creation of an acceptable specific plan. A carefully devised engagement and educational program must give CSD the time to meet with community members, to listen and understand the new context, and to jointly establish the necessary standards to facilitate ongoing development within each neighborhood.

Specific Plans: a tool for economic development and prosperity through a transparent process.

A Specific Plan created in partnership with the community sets clear goals and ground rules which provide a long term road map for investment that includes measureable goals. The plan includes needed infrastructure and other benefits for the neighborhood tied to develop, as well as mutually agreed upon design standards appropriate to each specific planning area. The certainty of process associated with this approach is key to obtaining private sector investment.

A Specific Plan is a regulatory tool for a localized area and is a separately adopted implementation document. A Specific Plan focuses on the unique qualities of a defined area by customizing the land use planning process and development regulations to that area. The area in question would be much smaller than is addressed in a typical Community Plan.

Public involvement in the Specific Plan process is required and helps define the community's vision of future growth and development. Innovative and creative Specific Plans can help communities avoid monotonous development and can create livable, sustainable neighborhoods.

A Specific Plan is intended to be used as a tool by developers, property owners, City staff, and decision makers, providing clear policies, development standards, and a vision that guides land use decisions and design, and defines infrastructure improvements, financing mechanisms, and economic development activities in the project area. A Specific Plan should remove constraints to efficient development and encourage desirable patterns of activity, land uses, and development types. A Program EIR is typically adopted to fulfill a City's CEQA requirements and provides for an expedited entitlement process. More specifically, a Specific Plan with such an EIR can help drive investment due to the certainty of process it creates, while outlining goals and expectations that residents, businesses, and developers can all embrace.

Specific Plans differ from Community Plans in that they allow for specific and potentially significant changes to target issues that may be appropriate for a neighborhood. This may include increases in density near transit, less emphasis on vehicles and more emphasis on walking and biking, provision for reduced

minimum parking regulations than the City standard, allowances for shared parking opportunities to reduce the cost of unneeded parking, and possibly even provisions for maximum parking regulations. Such flexibility can help focus the proper type of investment in an area. This flexibility is not normally addressed by a Community Plan or zoning.

By comparison, Community Plans address a particular geographic region or community within the overall planning area of a General Plan and are not a regulatory document. Rather they intend to define community character without specific development guidelines. Community Plans are used to refine the policies of a General Plan for specific communities, but their focus is not on implementation. A Community Plan update process will often involve more time and cost than preparation of a Specific Plan, and then each subsequent project often requires an extensive discretionary review process and separate CEQA documentation.

There can be disadvantages to a Specific Plan process. The preparation of a Specific Plan can be a lengthy and potentially costly process, and incorporating the plan into the daily planning process requires careful attention, particularly when the plan establishes regulations unique to that area. While one of the attributes of using a Specific Plan is improved certainty for development, Specific Plans can be amended and are subject to change over time.

The major benefits of CSD preparing Specific Plans and Program EIRs for the targeted neighborhoods is that the staff and Board have years of expertise in implementing complex mixed-use urban development, as well as in-depth knowledge of development pro formas, debt and equity underwriting, project delivery methods, and management of the former RDA-owned properties located in the targeted Specific Plan areas, and staff have built trusted relationships with the Foundations and major property owners in the targeted areas.

Receiving authority to prepare Specific Plans and process entitlements and permits is critical to raising equity and debt through a public/private investment fund. Having control of that process provides the fund's potential lenders and financial partners with the certainty that the properties within the Specific Plan area will increase in value through greater density and more flexible zoning combined with a predictable and certain permitting process. Without CSD having that authority, the fund's financial partners will not have confidence that properties acquired and assembled by the fund will provide the investors with their desired return on their investments or funds for reinvestment.

Financing Mechanisms: the capital that enables investment in infrastructure and public spaces, and the inducement that attracts the private sector to focus on a particular location

Tax increment financing once provided the capital engine that drove much of downtown investment. Now that we no longer have Redevelopment as a major financing tool, there are a whole host of new and existing mechanism that are being explored to sustain organization like Civic San Diego. To carry out the continued work of reinvesting in our communities, new financing mechanism must be identified and put in place which will enable infrastructure revitalization and a continuation of the creation of much needed affordable housing, previously so reliant on tax increment from redevelopment throughout the City.

With the dissolution of Redevelopment and its ability to harness tax increment, a new system for financing of infrastructure and development must be created. While the loss of tax increment is significant, there are some tools that can continue to be used and new ones that will need policy in order to be enacted. The following list of strategies contains a broad mix of policies and procedures, and financing sources and mechanisms. The financing sources and mechanisms include some appropriate only for public improvements and others that are incentives for private development.

Civic San Diego will be the entrepreneurial partner that will identify and secure the diverse mix of public and private funding sources for all facets of a Specific Plan's development. While the aggregate dollars available from available financing sources is less than could be generated by tax increment, there are still many viable options, including grants, special districts, forgivable loans, bonds, state infrastructure bank funds, cap-and-trade funding for sustainable communities, development impact fees, and other sources for planning, design, and infrastructure improvements (parks and open space, streets and sidewalks, bike lanes, medians, and fire/life safety components). Special financing, credit enhancement mechanisms, grants, and philanthropic foundations can provide bridge, gap, mezzanine, or subordinated debt for mixed-use development.

The financing mechanisms available to Civic San Diego fall under the following categories.

State Legislation. Some forms of financing will be driven by or impeded due to legislation at the State level, including the following:

Legislation That Requires Interagency Cooperation/Coordination. Our region could accomplish much more if our various public agencies worked to identify shared interests and expedite implementation of mutually desired projects.

Key examples include MTS, Port, SANDAG, San Diego Unified School District, etc. Separate political structures and competing mandates are in place, and there is little to no incentive for cooperation and compromise.

Prevailing Wage. It must be understood that prevailing wage rules make urban in-fill projects challenging; relief in urban infill locations would allow limited funding for infrastructure to go further.

Infrastructure Financing Districts. Legislation needs to require county participation in funding these districts; otherwise, they have little value to local government.

Statewide Community Infrastructure Program (SCIP). Allow local governments to offer a tool like the Statewide Community Infrastructure Program, a financing program that enables developers to pay most impact fees and finance public improvements through an acquisition agreement with the State via tax-exempt bond issuance proceeds, thereby deferring upfront costs to payments over 30 years through an increased property tax assessment. In many ways, this functions like a CFD, but reduces issuance costs that are prohibitive for a small-scale bond issuance.

1033 Tax-Deferred Exchange. This mechanism provides more flexibility in reinvesting the proceeds and allows the owner to avoid capital-gains taxes. This power should be given back to the localities if it would be beneficial for land assembly needed to implement plans.

Business Improvement Districts/Property-Based Improvement Districts/Assessment Districts. Any legislative improvements would be welcome that make it easier to adopt CFDs, Special Assessment Districts, and/or PBIDs in urban communities.

Proposed SB1 Sustainable Communities Investment Act. This bill would authorize certain public entities of a Sustainable Communities Investment Area, to carry out the Community Redevelopment Law in a specified manner.

Financing/Public Improvements. Tools that can drive local investment and the decisions for how to do these are largely based at the local level. They include the following:

Public/Private Investment Fund. Creation of a Public/Private Investment Fund with equity and debt provided by the City, SANDAG, philanthropic foundations, and private investment sources can provide funds for site

acquisition, planning, infrastructure improvements, and affordable housing. Many examples of this structure exist across the country.

Business Improvement Districts/Property-Based Improvement Districts/Assessment Districts. All of these mechanisms allow communities to “tax” themselves above the 1 percent level in order to deliver additional services and/or facilities.

Community Facilities Districts (CFDs). The value of CFDs is that they represent a truly new revenue source to a geographic area, not a shuffling of a revenue stream as proposed under Redevelopment or some of its proposed reincarnations. The increased tax burden has a negative effect on residual land value. To counteract this and incentivize landowners to elect to annex into a district, the landowner/developer must benefit (e.g., through a density bonus or expedited process).

California State Infrastructure Bank.

Community Development Block Grant (CDBG) Program. CDBG funds provide infrastructure funding.

Grants. Planning and capital grants can be obtained for urban planning studies, community infrastructure design and improvements, transit-oriented development, and community facilities.

Development Incentives. Incentives can spur investment with little or no direct costs, but rather through inducements to attractive investment.

Parking Standards. Parking requirements can be reduced for multifamily housing, and certainly for multifamily housing in TODs and mixed-use projects.

Development Impact Fees (DIF). DIF can be paid at certificate of occupancy or CFD can be imposed on the project to recoup these costs over 25 to 30 years, as is quite common for school fees in San Diego County.

New Market Tax Credits. The low-interest forgivable loan program provides gap financing to for-profit and nonprofit entities located in, or providing goods and services to, low-income communities, resulting in job creation for residents.

EB-5. This federal program, which provides financing through a certified Regional Center, attracts private investment for job-creating projects by offering a pathway to U.S. citizenship.

Tax abatement zones. An increase in property tax can be abated for X years for both businesses and homeowners who construct new buildings or rehabilitate or renovate their properties.

Affordable Housing Financing. Affordable housing opportunities can be implemented and financed in underserved areas in the following ways:

Subsidy Capital Equals Affordable Housing. Two renowned affordable housing policy experts were independently asked how housing policies and programs should be reshaped to be more effective. Each said, in essence, “We don’t need to do much different except find a lot more capital.” This underscores **the greatest loss to CSD with the demise of Redevelopment: the loss of public capital.** Most of the “capabilities list” above is about public capital or the use of it. Two initiatives could address the affordable housing capital need:

Property Tax Increment Setaside. One initiative is essentially the restoration of the property tax increment setaside for affordable housing. Cities such as San Francisco have already voted to reallocate a portion of the tax increment now coming to the general fund—to affordable housing. The former Low-Moderate Income Housing Setaside under Redevelopment had wide support even as Redevelopment was ending. Given the highly leveraged success of this program—measured in terms of housing needs served as well as economic impact—it is good public policy to restore this support for affordable housing. Certainly, it can also be refocused, and in comparison with the Redevelopment program, the benefits now could flow to the broader community as well.

Housing Trust Fund. The second initiative is the City’s Housing Trust Fund. Highly successful for over 20 years and nationally recognized, this Housing Commission-administered program has been ignored and progressively defunded over the years as a result of lack of political will. Restoring this program to the funding levels originally ordained would provide a major resource for affordable housing and accompanying economic development benefits.

Low Income Housing Tax Credit (LIHTC). Local capital for affordable housing will be increasingly important in attracting other capital, such as proposed state housing funds, the traditional sources such as the Low Income Housing Tax Credit (LIHTC), and other private capital. Currently, the LIHTC program remains the only financing engine of affordable housing in California, and it is not enough to fill the loss of Redevelopment. The time is right for

establishing San Diego's own equity fund where local businesses can invest in local projects. A leadership role in this for CSD would make sense.

Private Capital. Private debt and equity capital for affordable housing are relatively abundant but still heavily dependent on subsidy capital, since on its own private capital seeking a return does not buy much affordability. CSD could play a key role in strengthening **Community Revitalization Act (CRA)** behavior by our financial institutions—not that they have performed poorly, but they have not been pressed to do enough. Absence of San Diego-based banks and lack of pressure by groups like the former Reinvestment Task Force have allowed the banks to do less than they should, especially for our neighborhoods. A program similar to the Bay Area's **Transit-Oriented Affordable Housing (TOAH) Fund**, a mostly private capital fund, would be a strong potential vehicle for private investment.

Land Value Recapture. Another capital-generating tool, land value recapture, has been practiced by CSD for some time in the Downtown for the benefit of affordable housing, and an increasing number of cities are using this tool. This sound public policy involves capturing value generated by public infrastructure investment and land use decisions, and applying that value to the creation of affordable housing.

The tools identified in the four preceding sections are intended to help facilitate a discussion on how to consolidate the administration of various assessment districts to provide additional resources for reinvestment in our communities; how to use the increment in property tax, on a per-parcel basis, to help development fund impact fees/infrastructure projects; and how to legislatively require regional coordination to leverage available resources for public improvements.

AREAS OF FOCUS FOR CREATING COMPLETE COMMUNITIES

Using the CCDC and Civic San Diego model many key successes have been realized over the past near four decades. The most notable and successful in driving investment in urban and underserved communities are described below.

Affordable Housing

San Diego is frequently noted as one of the least affordable cities in the State. This not only hurts local residents, but also retards investment and business location in the County. A key driver of redevelopment has been the provision of affordable housing. For decades, redevelopment agencies brought a range of tools and financing to ensure that at least 15 percent of the homes in target areas were affordable to lower-income families, seniors, veterans, and people living with disabilities. Over the years, CCDC/Civic San Diego demonstrated creativity and success in achieving balance in housing affordability and tenure in the Downtown.

Providing Civic San Diego with the tools and authorities to create a more predictable, expedited, and certain entitlement process combined with reduced/shared parking standards will reduce the cost of all housing, including the very important workforce housing.

Essentially, CCDC brought the following major ingredients necessary for affordable housing success—anywhere:

- a plan;
- a mandate ;
- policy drivers (e.g., inclusionary requirements);
- land/land assembly, including funding for land acquisition;
- public infrastructure financing and implementation;
- subsidy capital (also known as gap financing); and
- implementation skills (deal making).

With this tool kit, CCDC partnered with both market-rate and affordable developers, for-profit and nonprofit, to create a range of housing opportunities. The model was repeated many times, with slight variations and with a variety of different development teams. Thousands of units of all types were built—family, seniors, special-needs housing, transitional housing, new construction, rehabilitation/preservation, high-rise/mid-rise, condos, rentals, market rate, affordable, and so on. After some detours and challenges, CSD became very effective at balancing the

needs of the community, developers, environmentalists, and business to get things done—to improve the community. These efforts encouraged more people to live in Downtown and improved housing choices for existing residents while leveraging huge amounts of additional public and private capital to get the job done. As the outlying neighborhoods of the City densify in response to the need for additional housing, with the added cost of building vertically, it is critical that new mechanisms be developed to subsidize and finance the appropriate scale of affordable housing to fit the emerging neighborhood character, and no organization has more experience than CSD in facilitating a successful outcome on this challenge.

Civic San Diego’s creativity in its approach to affordable housing was recently demonstrated by its preparation of an Affordable Housing Master Plan that set forth clearly defined objectives and strategies for optimizing the continued production of affordable housing, particularly for those members of the population with special needs, with the precious limited financial and land resources remaining following the dissolution of redevelopment.

San Diego continues to host a strong affordable housing developer sector, skilled at creating green, sustainable, infill housing. Market-rate housing development has taken off, with thousands of new apartments under construction. CSD and its partners still know how to put these ingredients together and have had great success in providing housing affordable to all members of our community. The ingredient list does not change: we know what works and what to do. The challenge is reestablishing, refocusing, and using these proven tools for success.

Transit-Oriented Development

CSD has been able to promote developments near public transit to best serve residents who may wish to use it. TODs are not applicable for every neighborhood. But for the areas where it does apply, it is a proven development practice. All noteworthy forecasts predict that the bulk of real estate development for the next several decades will be higher-density, walkable urban places, and much of it served by rail transit. This trend is predicated on the following factors:

- TOD is socially, environmentally, and economically responsible.
- Residents are willing to pay a premium to live near transit stations rather than face long commutes in cars confronted by ever-increasing gasoline costs.
- Younger generations have nowhere near the affection for the automobile held by previous generations.
- Employers are now discovering that transit amenities can help attract and retain employees.

Transit stations are often located in areas where properties are controlled by many different owners; assembling parcels needed for significant development is a challenge because many of the property owners are hard to find. Site assembly is an important function that is best accomplished by a public nonprofit entity like CSD. CSD's structure provides it with the responsiveness required to act on site-acquisition opportunities for site assembly, has flexibility in its legal authorities to acquire sites for community development purposes, and has the expertise to negotiate innovative public/private partnerships for the sites' ultimate disposition to achieve Community Plan and Specific Plan objectives. It will be important to showcase TOD Opportunity Areas as a way to develop an enhanced community engagement process and to build trust that what is planned will actually get built.

Parking

Parking is often the greatest cost and impediment to new development. This includes parking for new buildings, but also public street parking that is costly and occupies significant public land solely for the benefit of storing cars—often at no cost to those using the parking. Innovative shared parking is important to a TOD and can stimulate greater densities using lower actual parking ratios but achieving higher effective ones. Many developers avoid the cost and complexity of mixing three or more uses vertically in a single structure because of onerous parking requirements that often result in the construction of more parking spaces to accommodate periods of peak demand—spaces that lie fallow and unoccupied at most other times. ULI over many years has advocated for and become the leading authority on the appropriate ratios of shared parking for each component in a mixed-use project. The Institute's regularly published and updated manuals have become the standard adopted by many municipalities all over the country. Because shared parking enables the construction of less-costly spaces, there is a corresponding enhancement to project feasibility, with no loss of function.

Civic San Diego's proposal to construct underground shared parking, preferably located under a future public park or plaza, would create a common pool of shared spaces for buildings located around the site. Shared parking also creates greater efficiencies in terms of floor plate size, layouts, ramp design, and retaining wall length and cost, resulting in a smaller average size per space, including circulation, than parking located under each individual building with space lost due to building cores. Shared parking also activates the public plaza or park, encourages social activities and community bonding. Shared parking is being used widely in downtown Portland, Oregon, and other cities to encourage mixed-use, transit-oriented development, reducing housing costs by providing only the number of stalls necessary and sharing

them with daytime uses when residential use is reduced. The shared parking can be financed using municipal bonds or conventional debt, with debt service covered by in-lieu fees paid by each building benefitting from the parking. A specified portion of stalls should also be dedicated for a car-share operator, like Car2Go, for those residents, workers, or customers not requiring full-time use of a vehicle.

THE NEXT STEPS

As has been described above, Civic San Diego has a proven track record in the Downtown area. CSD's tool kit can be expanded or modified to address the needs of other urban neighborhoods or areas in need of investment. To do so successfully the following steps should be considered.

Improving the Development Process

- Design public infrastructure to a level of detail qualifying it for various governmental funding streams, including grants and infrastructure loans;
- Provide a streamlined, predictable, and transparent entitlement process through Civic San Diego for proposed projects located within the Specific Plan boundaries, a process that has proved successful in downtown since 1992 and that supports the authentic character of each neighborhood;
- Periodically review the Specific Plan, measure outcomes, and process amendments as necessary based on that review and changing priorities of the community;
- Detailed design guidelines for private development and the public realm;
- An updated community plan reflecting the comprehensive vision of residents and business owners;
- A Planned District Ordinance (Specific Plan or Transit Overlay) that provides detailed land use regulations that encourage flexibility in land uses, are relatively easy to interpret, and encourage density;
- Density bonus programs that encourage the incorporation of community benefits within projects (affordable housing, family residential units, grocers, public parking, public open space, arts/cultural/community space, child care facilities, etc.) or provide an opportunity to purchase density with revenues dedicated to specific public improvements;
- Programmatic EIR for the Specific Plan area;
- Streamlined entitlement and permitting process that is fair, transparent, predictable, certain, and removed from political influences;
- Opportunities and incentives for share parking opportunities;
- Updated traffic demand standards specific to TOD;

- Investment in safe and well-designed public spaces (public investment attracts private investment);
- Investment in streetscapes, the pedestrian experience, and bicycle infrastructure;
- Ability and expertise to create and enter into innovative public/private partnerships;
- A collaborative high-performance team approach to staff evaluation of projects (negotiation lead, finance team, planners, contracts manager, public works professionals);
- Limited geographic areas of a high priority for community development that allow staff to focus their time and expertise;
- Frequent and comprehensive community engagement that is inclusive of a diversity of community and stakeholder groups;
- Active relationship building and collaboration with partner public agencies (San Diego Housing Commission, SANDAG, County of San Diego, Veterans Administration, HUD, MTS, etc.) and private partners (Regional EDC, Chamber of Commerce, San Diego Workforce Partnership, Corporation for Supportive Housing, Regional Continuum of Care, business associations, labor organizations, Environmental Health Coalition, Center for Policy Initiatives, etc.).

Creating Opportunity Areas

San Diego has many wonderfully distinct neighborhoods and communities. In order for these neighborhoods to thrive, each requires detailed attention because they come with their own set of stakeholders, partners, issues, and opportunities. Many of these neighborhoods have projects or initiatives that have stalled or are caught in a never-ending planning or implementation cycle. CSD, with its track record as an implementer, is poised to be able to assist the communities that are ready to implement the plans they have envisioned. The key to implementing Opportunity Areas is through the Specific Plans.

Opportunity Area Pilots

The Civic San Diego realignment process could begin with one or two pilot areas. Using currently available resources it will allow Civic San Diego to get important feedback, refine the process and establish early successes before implementing city wide.

Community Supported Potential Pilot Areas

1. Village at Market and Euclid (second-busiest intermodal transit center in the region and MTS system);
2. City Heights Transit Corridor and Pilot Village along El Cajon Boulevard;
3. San Ysidro Pilot Village and link to Virginia Avenue (busiest intermodal transit center in the region and MTS system and busiest international border crossing in the world);
4. Mid-City bus rapid transit route (North Park and City Heights); and
5. Logan Heights transit corridor.

Opportunity Area Pilot Process

Here is our recommendation for Pilot process:

- One or two key transit corridors located in underserved urban communities are identified as pilot projects for revitalization, such as the Market/Euclid/Imperial corridors, the future mid-City bus rapid transit route along El Cajon Boulevard, or the San Ysidro proposed multimodal center and adjacent commercial corridors, etc. The pilot areas can be identified through cooperative efforts of City staff, SANDAG, CSD, and the communities.
- In collaboration with the respective Community Plan updates being prepared by the City, and based on applicable plans previously prepared for the communities, CSD proposes to prepare finer-grain Specific Plans in the targeted transit corridors that focus on providing the unique zoning, design standards, incentives, and increased intensity/scale that are critical elements of successful transit-oriented villages.
- Land value recapture opportunities are provided within the Specific Plan by offering density bonuses in exchange for including desired community benefits in new development projects (i.e., three- or four-bedroom family units, public open space, public parking, grocers, arts/cultural space, etc.) or paying a fee for additional density that may fund community benefits or necessary infrastructure.
- A Programmatic Environmental Impact Report is prepared that considers all the elements contained in the Specific Plan.
- Form code and design guidelines are prepared that allow mixed-use development and emphasize high-quality architectural design, public open spaces, diversity in housing options, and pedestrians, bicycles, and transit rather than vehicles.

- Extensive and continuing engagement takes place with community stakeholder groups during the Specific Planning process and as projects seek entitlements and permits.
- The Public Facilities Financing Plan (PFFP) is updated so that it is based on the projected increased development permitted within the Community Plan and Specific Plan, thereby establishing appropriate development impact fees that provide a funding source for infrastructure, parks and open space, and other public facilities. Also, the gap in infrastructure funding that will require public subsidy and financing from leveraged government sources is identified.

Suggested Ways to Collaborate

In order for Civic San Diego to implement the strategies within this White Paper, the following assistance from the City will be needed:

- Access to economic and community development funding that cannot be secured effectively by a municipal jurisdiction, i.e. NMTC, public/private investment fund, philanthropic sources.
- Streamlined planning and permitting authority allowing the ability to react to market opportunities, as demonstrated by Downtown’s successful revitalization
- Expedited implementation of neighborhood priorities.
- Increased ability to coordinate and leverage public/private and philanthropic resources.
- Leadership role by Mayor to identify goals for our communities.

Recommended Implementation Actions are the following:

- a. Amendment to Consulting Agreement to include targeted TOD villages and economic opportunity areas in environmental justice communities, as defined in the General Plan.
 - i. Enhanced urban design, planning, and permitting authority on a limited basis to support community development efforts in targeted TOD and investment areas, which includes the ability to adopt urban standards where necessary.
 - ii. Authority for CSD to prepare Specific Plans and Program EIRs.
 - iii. Ability to work closely with Development Services, complementing the City’s planning department.
 - iv. Authority to perform public works projects in the targeted investment areas.

- v. Work closely with CIP department to complement the CIP functions.
 - vi. Maintain direct accountability to Mayor and Council
- b. An amendment to the Municipal Code that provides CSD with similar design review, entitlement, and permitting authorities as it had in Downtown with the targeted Specific Plan areas.
 - c. Funding.
 - i. Financing to prepare programmatic EIR and Specific Plans to allow permitting similar to the streamlined process Downtown.
 - ii. Allocation of CDBG funds repaid to City from Successor Agency for community investment.
 - iii. Community engagement and communications.
 - d. Continued cross-departmental cooperation with City departments and interagency collaboration, i.e. CalTrans, SANDAG, Housing Commission, MTS, School Districts, GSA, DSD, Planning, and E&CP.
 - e. Similar to what is being done in other major California cities, a pledge that reinvestment of tax increment funds generated from the dissolution of Redevelopment will go to these same targeted neighborhoods.
 - f. Support and approval by the City of Civic San Diego's Affordable Housing Master Plan that will provide critical funding for affordable housing and housing for the homeless in urban neighborhoods throughout the City.
 - g. Priority processing and approvals of programmatic environmental reports to support the targeted Specific Plans.
 - h. Facilitation of the "meet and confer" process, if deemed necessary by the City Attorney's office.
 - i. Assessment of the City's surplus properties for use for possible redevelopment purposes, with sale proceeds dedicated to infrastructure improvements located in the targeted urban neighborhoods, or for affordable housing purposes.
 - j. Civic San Diego has a strong track record of producing results, but its ability to effectively implement its mission has been weakened with the loss of staff. In terms any new Civic San Diego mission responsibilities, the commitment to adequate staffing should be commensurate with the role. It would be a major mistake to create expectations and not have the agency staffed in such a way as to allow any real chance for success.
 - k. A leadership role in setting goals for affordable housing and reducing homelessness. The Downtown, by way of Redevelopment, had an affordable housing plan and mandate—context for an affordable housing mission. The City as a whole and its neighborhoods do not. The Housing Element contains useful

information, but has no real implementation component and, more important, is not supported by mandate or political will. If CSD is simply charged with “doing affordable housing,” little will be accomplished. The Mayor has an important role in boldly identifying a goal for our balanced communities and communicating how San Diego benefits from getting the homeless off the streets and providing safe, stable homes affordable for all.

¹Housing Element page HE-136: In addition to existing programs, the City should also consider the development of an Equitable Urban Reinvestment Program, centered around Transit Village Development Districts. In accordance with CA Government Code section 65460, the City could prepare a Transit Village Plan for all land located within one-half mile of a transit station. These plans would support implementation of the City of Villages concept around transit stations, focusing on intensifying appropriate land uses, promoting connections between jobs and housing, and addressing infrastructure needs. A Transit Village Plan would be developed in a similar manner to Community Plan Updates. However, the focus would be limited to the areas around transit stations and would include a series of short- and long-term implementation actions. Transit Village adoption could include such components as: concurrent adoption of a Master EIR; parking reductions; the use of form-based codes; and focused and leveraged funding sources. The San Francisco Bay Area’s program entitled the Bay Area Transit-Oriented Affordable Housing Fund (TOAH) serves as an example of a successful model for which San Diego’s Equitable Urban Reinvestment Program could follow.

APPENDIX

Executive Summary

In September 2012, Urban Land Institute (ULI) San Diego–Tijuana conducted a Global Forum, in partnership with the Aspen Institute, on the Culture of Innovation and discovered that an Innovation Economy + Art/Culture + Education + Real Estate Development = A Powerful Formula for Great City Building in the 21st Century. San Diego is well on its way toward aligning with this economic development strategy, but how do we leverage what we have to more fully position ourselves to compete in the new world that is emerging?

This economic strategy is coming to the forefront at an opportune time, which is characterized by tremendous global change. The global economic recession has been the major catalyst, but climate change and demographics also are playing significant roles. Every aspect of society will need to be rethought in order to respond to these major changes. These design changes will greatly affect how we interact with and build our cities. This formula focused on catalyzing innovation is also a big business development tool for both the private and public sectors—a strategy that our leaders can use to build alignment with constituents. This kind of a strategy requires an educated workforce, access to venture capital, and great city amenities, which innovative companies and employees want from the city they call home. Cities that want to incorporate the creation of innovation hubs into their strategy need to understand what their own unique attributes are and how they can use them to develop or enhance economic sectors within their economy. The values of the residents must be incorporated into a vision that the private and public sectors can prosper from, and then leadership must step up to implement that vision. Without leadership and alignment from both the private and public sectors, this bold, collaborative strategy will fall short.

In January 2013, Mayor Filner was sworn into office, and in his State of the City address stated, “We have an opportunity in San Diego to create a truly great international city, a city that respects and empowers its people, a city that protects and enhances their quality of life, and a city that promotes good-paying jobs and a healthy economy for all residents.” This approach can be implemented by the creation of Complete Communities (defined below) using the unique and proven skill set held by Civic San Diego (CSD). It is also complementary to the Mayor’s other initiative to create the Neighborhoods First Strategy.

In February 2013, ULI San Diego–Tijuana was asked by Mayor Bob Filner, at its quarterly Advisory Board Meeting, to come up with ideas for how to reorganize the city’s planning and development services departments so that the focus was more on creating healthy, sustainable, and complete communities. The idea that emerged

from a subgroup within the ULI Advisory Board was to explore how the newly organized CSD could leverage its talent, creative culture, and entrepreneurial spirit to advance economic development, neighborhood investment and revitalization, and urban planning and permitting to assist the Mayor in realizing his vision. The subgroup discussed the unique attributes that fall under the umbrella of CSD and decided to pull together a team of ULI members, CSD staff and board, and city official representatives to explore the subject. Staff members from City Council Districts 3, 4, 8, and 9 attended one or both of the workshops, as did Mayor Filner’s Chief of Staff Allen Jones. This White Paper outlines the ideas from the two workshops that were conducted in April 2012.

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Bill Anderson	AECOM
Evan Becker	Former Chair of San Diego Housing Federation
Deborah Bossmeyer	Stewart Title
Eric Crockett	
Ian Gill	Highland Partnership
Jeff Graham	Civic San Diego
Scott Johnson	Civic San Diego
Stacey Lankford Pennington	SLP Urban Planning
Mary Lydon	ULI San Diego–Tijuana
Nancy Lytle	Civic San Diego
Mary Pampuch	Lankford & Associates
Tony Pauker	City Ventures
Andrew Phillips	Civic San Diego
Brad Richter	Civic San Diego
Barry Schultz	Stutz Artiano Shinoff & Holtz, APC
Mike Stepner	New School of Architecture
Mark Steele	MW Steele Group
Claudia Tedford	CItyPlace Planning
Frank Wolden	New School of Architecture
Mike Yanicelli	Alliance Residential Company

Civic San Diego Board

Rich Geisler
 Donna Jones
 Carlos Vasquez

Urban Land Institute

The Urban Land Institute is an international organization that provides leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. For more than 75 years, ULI, with an international membership of nearly 30,000, has been widely recognized as the top advocate for encouraging and fostering high standards of land use planning and real estate development.

The ULI San Diego–Tijuana District Council was established in 1997 and has 550 members representing a wide spectrum of real estate disciplines. They include architects, engineers, developers, builders, planners, lenders, brokers, accountants, attorneys, academics, and students. As the go-to land use organization for real estate issues in the region, ULI San Diego–Tijuana facilitates the open exchange of ideas among industry leaders, practitioners, and policy makers. The District Council sponsors several monthly educational forums focused on land use issues, policies, people, and projects.