REDEVELOPMENT IS DEAD! LONG LIVE REDEVELOPMENT!

THE LEGACY OF 54 YEARS OF REDEVELOPMENT IN THE CITY OF SAN DIEGO

SUMMARY

The 2012-2013San Diego County Grand Jury examined the achievements of the City of San Diego's Redevelopment Agency (RDA) over the past half century and found them to be truly remarkable. The RDA made substantial contributions to the appearance, livability, and vitality of the City—not just downtown, but in many of the neighborhoods of the City as well. Numerous examples are cited in this report. The RDA facilitated a dramatic growth in the supply of housing for all income levels. The increase in affordable housing for low and moderate income families and supportive housing for the homeless and those at high risk of homelessness is especially noteworthy.

The Grand Jury concluded that the taxpayers of San Diego did, indeed, get value for their property tax dollars in the contributions their RDA made to the City, achieving a ratio of $7 of private investment for every $1 of public funds spent to stimulate the revitalization of our City. The Agency was successful in eliminating blight and promoting economic growth even during a period of prolonged economic downturn.

However, the achievements of San Diego's RDA were not accomplished without substantial cost. The Agency—dissolved with all the other redevelopment agencies statewide by the action of Governor Brown and the State Legislature—*left the City with a redevelopment debt of almost $2.4 Billion!*

The Governor and the State Legislature took the property tax revenues that Proposition 18, a Constitutional Amendment, enabled RDAs to use as security for and as the means of paying for this debt. When the State took the money and diverted it to other uses, the State created an ethical responsibility for itself to assure the debt is paid. The Grand Jury recommends that the Mayor personally lead a comprehensive, impactful advocacy effort to assure that the State fulfills this responsibility and the interests of the City of San Diego are well-represented.

Finally, the Grand Jury recommends that redevelopment in the City be continued through the expertise and talent the City has garnered in Civic San Diego, the non-profit corporation created to be the arm of the Successor Agency required by law to wind down the business of the dissolved RDA. Creative thinking will be needed to find the means to continue the impetus toward the physical and economic growth of the City that a half century of the excellence of San Diego's Redevelopment Agency has set in motion.

PURPOSE AND BACKGROUND

The story of redevelopment in San Diego begins in 1958 with the formation of the City's Redevelopment Agency. The story ends February 1, 2012 when the more than 400 redevelopment agencies statewide were dissolved and the property tax dollars that funded their work were redirected as a result of AB 26, the "Dissolution Act" passed by the State Legislature.

The Grand Jury decided to examine the legacy of the 54 years of redevelopment in the City. Did redevelopment produce significant results in San Diego? Did the citizenry get value for the property tax dollars spent? What will become of the almost *$2.4 billion* in debt the City's Redevelopment Agency left behind? Should redevelopment continue? If so, where will the funds to support this work come from? These are the questions the Grand Jury asked and attempts to answer in this report on redevelopment's legacy in the City of San Diego.

PROCEDURE

The Grand Jury interviewed representatives of the City, the RDA and its Successor Agency, Civic San Diego, and the Office of the County Auditor-Controller.

Three prior Grand Jury reports on redevelopment were reviewed, two prepared by prior San Diego County Grand Juries and one by a Santa Barbara County Grand Jury.

More than two dozen other reports and documents were reviewed, some of which are extensive, in-depth studies on redevelopment.

More than two dozen *U-T San Diego* newspaper articles and reports were read, some of which are quoted in this report.

Nine State and Federal laws were examined and their provisions noted.

Members of the Grand Jury visited a number of the redevelopment projects reviewed in this report in order to observe them first-hand.

DISCUSSION

Minneapolis, Chicago, Cincinnati, Kansas City, Atlanta---cities across the country have undertaken urban renewal during the period San Diego's Redevelopment Agency has been at work, particularly during the last 35 years. Gleaming new towers of business and high-rise living have been constructed in areas that were once characterized by blight and urban decay. A growing population that is younger and more eclectic, diverse, and energetic has been attracted to these urban centers, giving them new vibrancy and appeal. Shopping and entertainment areas, cultural centers, sports complexes, and expansive open park spaces have been developed to meet the needs and desires of these city dwellers and motivate others who live outside of the downtown area to come downtown and enjoy its attractions. Investment and economic growth have accompanied this national phenomenon of urban renewal.

These changes have not been without challenges, however. The changes have created new demands for infrastructure, public transit and other public services. Affordable housing has become an issue as the pressures of growth have driven up housing costs that are especially burdensome for the low paid workers in retail, service, and tourism industries. A prolonged economic downturn has contributed to stalled projects, unemployment, mortgage foreclosures, and homelessness.

How has such urban renewal fared in the City of San Diego, in particular? We will look briefly at the history of redevelopment in San Diego; at the achievements of the City's Redevelopment Agency and especially the Centre City Development Corporation, the public non-profit corporation created to carry out the Agency's redevelopment projects downtown. We will look at the cost/benefit ratio of these achievements; at the debt that is part of the legacy of the now dissolved RDA; at the means for dealing with this debt crisis; and, finally, at the future of redevelopment in the City.

HISTORY

In 1945, the State Legislature passed the California Community Redevelopment Law which gave local governments the authority to form redevelopment agencies to address problems of urban blight and to enable such agencies to apply for Federal loans and grants. In 1951, this law was codified in the State Health and Safety Code, Sections 33000 *et seq.* The State did not, however, appropriate any funds to support redevelopment activity. In 1952, California voters passed Proposition 18, "Community Redevelopment Projects." This constitutional amendment[1] enabled RDAs to use tax increment revenues to fund their planned redevelopment projects.[2] [3]

"Tax increment" is based on the assumption that redevelopment activity produces increased property values in the project area, which result in increased property tax revenues labeled as "tax increment." This is the amount of property tax revenue that is over and above the baseline figure that the area normally generated before redevelopment in the area began. As Proposition 18 intended, San Diego's RDA used the promise of future tax increment revenues to issue billions of dollars in bond money that it used to enter into agreements and contracts to carry out the Agency's redevelopment work.

Community Redevelopment Law also permits and actually anticipates that the local city council will establish a redevelopment agency and appoint itself as its governing board. The San Diego City Council did just that when it established the Redevelopment Agency of the City of San Diego in 1958. The long history of redevelopment in San Diego had begun.

The Redevelopment Agency had no direct employees of its own. The Agency contracted with the City for services provided by **The Redevelopment Division of the Department**

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[1] "California Proposition 18, pertaining to Community Redevelopment Projects, was on the November 4, 1952 ballot in California as a legislatively-referred constitutional amendment where it was approved." From Ballotpedia.

[2] "Authorizes and validates laws permitting use of additional tax revenue, based on later increases in assessed revenue, for payment of bonds or other obligations of the redevelopment agency *and permitting the agency to pledge such income as security for its obligations*." [emphasis added] Analysis provided by the California Legislative Analyst's Office. *California Voters' Guide for the November 4, 1952 Ballot.*

[3] "It would author ize…the excess to a special fund of the redevelopment agency to pay the interest and principal on any debts incurred by the agency in financing or refinancing the project. *It would empower the legislature to provide for the irrevocable pledging of such excess for payment of such principal and interest.*" [emphasis added] From Hastings I&R database.

of City Planning and Community Investment. This was only one of three contracts or agreements the RDA entered into to carry out the work of redevelopment in San Diego. The other two were agreements with two public non-profit corporations the City created expressly for this purpose.

The Centre City Development Corporation (CCDC) was formed in 1975 to create and manage the Redevelopment Agency's projects in downtown San Diego. **The Southeastern Development Corporation** (SEDC) was formed in 1981 to implement redevelopment and economic growth projects in southeastern San Diego.

Because CCDC and SEDC were each legally separate from the City, they were not required to follow the City's Civil Service rules nor its contracting procedures. This flexibility to act quickly and decisively without getting mired in bureaucracy enabled the RDA to carry out its mission effectively and produce outstanding achievements in an expeditious manner. We will examine the achievements of the City's RDA through its unique tripartite structure shortly, but first we must finish the history of redevelopment.

While redevelopment agencies benefitted from increased property values in designated redevelopment project areas by receiving tax increment revenue, the amount of property tax revenue the schools received remained frozen at the baseline amount established before redevelopment in the designated project area began. The cost of operating the schools, however, did not remain frozen. Cost increases were due to many factors, sometimes including the growth that redevelopment itself created in the area. To address this issue, in 1993 the Legislature passed AB 1290 which established a formula for "passing through" part of the Agency's tax increment revenue back to the schools (as well as special districts, counties, cities, etc.)

Proposition 98, passed in 1988, required the State to fund schools at the minimum levels specified in the Proposition. Even with AB 1290 "pass through" payments, however, the schools still did not receive enough property tax revenue to meet the required minimum funding level. Thus the State had to spend money from its General Fund to support schools while RDAs continued to receive a substantial amount of property tax revenue that would otherwise have gone to schools.

Dissolution of redevelopment agencies would correct this problem and allow the State to redirect tax increment funds back to the schools and other entities, relieving the drain on the State's General Fund and thus helping the State deal with the budget crisis it faced.

On June 29, 2011, Governor Brown signed into law AB 26, the "Dissolution Act" that had been passed by the State Legislature. The Act called for the dissolution of all redevelopment agencies statewide and authorized the State to "redirect" the property tax money that had been funding redevelopment projects.

On December 29, 2011, the California Supreme Court ruled that the Act was constitutional, and it set February 1, 2012 as the effective date for the dissolution of all of the more than 400 redevelopment agencies throughout the State.

Redevelopment in the State of California was dead!

ACHIEVEMENTS

This report has a special emphasis on redevelopment in the downtown area of San Diego and on CCDC, the agent of the City's RDA that turned an area full of porn shops and tattoo parlors into a thriving downtown with attractive residential, business, and public structures along with extensive entertainment and cultural facilities. A prosperous downtown is essential for the economic well-being of the entire San Diego region.

Since the establishment of the RDA's Centre City Development Corporation in 1975, more than 12.3 billion dollars of private funds have been invested throughout downtown, matched by 1.78 billion dollars of public funds—a healthy 7:1 private/public ratio.[4]

Today, downtown San Diego generates more than 50 million dollars annually in sales and transit occupancy taxes, which flow directly to the City's General fund.[5]

In addition to housing and business and commercial structures, CCDC was engaged in extensive infrastructure improvements and public works projects; the creation of parks; the development of important visionary plans for our City; and award-winning restorations of many historical structures, some of which date back to the 1870's.

"CCDC's successes are evident, including contributing to increasing property values in downtown San Diego." "…demonstrating its success from facilitating construction of Petco Park to updating the Downtown Community Redevelopment Plan in 2006."[6]

"CCDC has been successful in streamlining the design review and permitting process, incorporating public improvements into redevelopment plans, and maintaining a broad repertoire of lending and subsidy options to lure private development."[7]

CCDC processed hundreds of development, conditional use, and neighborhood use permits while serving as the Design Review Board for downtown San Diego and establishing a one-stop-shop for design review and permit processing for private development and public/private redevelopment projects.

"Since its inception, CCDC has employed many best practices—such as design review and permitting, public works project management, and long range planning—often exceeding the level of involvement of other redevelopment organizations. CCDC has utilized successful methods to mitigate blighting conditions in the downtown project areas by constructing numerous public improvements, encouraging private investments, and creating catalyst projects such as Horton Plaza Shopping Center and Petco Park."[8]

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[4] "Economic Gain from Redevelopment---Past 36 Years"
FY 2011 Budget, Centre City Development Corporation, 2011

[5] From the Mayor," p.2, *Downtown Today*
Centre City Development Corporation, Winter/Spring 2010, Issue 61

[6] "Summary of Results," p.iii, *Performance Audit of the Centre City Development Corporation*
Sjoberg Evanshenk Consulting, Inc., July 2009

[7] *Ibid*.

[8] "Summary of Results," p.iv, *Performance Audit of the Centre City Development Corporation*
Sjoberg Evanshenk Consulting, Inc., July 2009

These findings of a professional independent auditor quoted above testify to the excellence and success of the Centre City Redevelopment Corporation, the arm of San Diego's Redevelopment Agency for downtown redevelopment projects, examples of which are given below.

Major Projects

The **Horton Plaza** shopping and entertainment center opened in 1985, marking the real beginning of downtown's redevelopment. An overwhelming success since its opening, the shopping center won dozens of awards in design, architecture, and urban development. It was the first successful downtown retail center since the rise of suburban shopping centers decades earlier.

The shopping center was the centerpiece of the **Horton Plaza Project Area**, one of the original redevelopment project areas. This 15-block downtown area was master planned for retail, hotel, office, entertainment and residential uses. The successful revitalization of this area spilled over into the **Gaslamp Quarter**, a 16½ block neighborhood that is listed on the National Register of Historic Places. The 94 structures of the Gaslamp Quarter that have been identified as historically or architecturally significant now house more than 100 restaurants and nightclubs, movie theaters, stores, offices, galleries, and lofts.

Construction of the original 1.7 million square-foot **Convention Center** on 11 acres of land owned by the Port of San Diego was completed in November 1989. The Port paid cash for the $164M project as part of a downtown revitalization program. An expansion which nearly doubled the building in size to 2.6 million total gross square feet was completed in 2001. Before the RDA's dissolution, the City had been looking to CCDC to to cover debt service and maintenance for the expansion. In September 2008 the Convention Center took steps to acquire adjacent property for an additional expansion that would increase the Convention Center's capacity by 33%. Hotel owners have agreed to increase the hotel room tax to pay for the estimated $520M project.

Petco Park opened April 4, 2004. The $450M cost of construction was financed through a complex agreement that involved the City, CCDC, the Port District, the County, and the San Diego Padres. The end result is that the City has 70% ownership of the Park, and the San Diego Padres 30%. The City subsequently asked CCDC to make the $11.3M annual bond debt service payments for 21 years because of the City's financial woes. CCDC refused because it had already committed to making the debt service payments for the Convention Center's first expansion.[9] The City will have to make these payments itself.

Petco Park was part of a comprehensive plan to revitalize San Diego's aging downtown area, especially East Village. Like the Gaslamp Quarter, **East Village** is a redevelopment success story. At 325 acres, East Village is downtown's largest neighborhood. It is also one of the fastest-growing and most diverse areas, offering a trendy lifestyle close to San Diego Bay. Artists' lofts, studios, galleries, and shops can be found in this neighborhood;

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[9] "CCDC Balks at Funding Petco Park for 21 Years" by Roger Showley, *U-T San Diego*, January 26, 2011

former warehouses that have been transformed into residential and mixed-uses units add urban appeal.

The New Central Library is a 10-story, 400,000 sq. ft. building designed with expansion space projected to serve the City's library needs for 50 years or more. The $184.9M project is being built without using any money from the City's General Fund. CCDC, acting on behalf of the RDA, provided an $80M subsidy for the project. The balance of the cost is being funded by private donors, the State Library, and the San Diego Unified School District. Two of the Library's 10 floors will be used for a charter school serving 400 students.

Other notable redevelopment projects include: construction of **Smart Corner**, a 19-story community development that combines residential living, an office building, ground floor retail space and convenient access to mass transit; restoration of the 1924 historic **Balboa Theatre**; remodeling of the lobbies and restrooms of the two-level subterranean **Lyceum Theatre**; an award winning restoration of the exterior of the **Remmen Apartment Building** located downtown.

CCDC was not the only productive arm of the Redevelopment Agency. Below are examples of projects for which the Redevelopment Division of the Department of City Planning and Community Investment was responsible: the transformation of the former **Naval Training Center** into **Liberty Station** has become a model for future military base closings; the **North Park** Theatre, a cornerstone of the community since 1928, was rehabilitated to once again become a live performance venue; the old **Woolworth Five and Ten Building** in North Park was completely renovated to attract a popular Asian restaurant to North Park's rapidly growing reputation as a restaurant center; the award-winning **City Heights Urban Village** has recreated the core of the City Heights community, establishing a pedestrian-friendly town square with important City facilities and centers of learning.

Parks
The Downtown Community Plan, updated by CCDC in 2006, called for the addition of more than 50 acres of new parks and plazas—outdoor living spaces designed to enrich the quality of urban living. Examples of the planned parks are briefly described below.

A major expansion of the historic **Horton Plaza Park** began at the end of 2012 with the demolition of the old Robinson's-May building in the Horton Plaza Shopping Center downtown. The $14.7M park project is being financed by leftover RDA funds.

The **14th and Island Park** in East Village is being constructed as part of the 15th Street and Island Avenue mixed-use development. As a condition of a permit to build two condominium towers, the developer agreed to create a 1.29 acre public park on the west half of the site.

Tweet Street is an award-winning park and trail system in the Cortez Hill area. It has curved walking paths, benches, flowers and trees, and a play area for children. A special feature of the park is the artistic birdhouses and other public art along the walking paths.

Infrastructure and Public Works
The RDA, working through CCDC, accomplished extensive public improvements that the City would not have been able to do on its own. Basic infrastructure projects were completed throughout the Core District, Cortez Hill, East Village, and Little Italy. These projects include: 1) repairing or replacing miles of 50 to 100 year-old broken or damaged sidewalks; 2) repairing driveways, curbs, gutters, parkways, and storm drains; and 3) installing hundreds of new streetlights, providing permanent litter receptacles, and replacing missing trees.

The **Harbor Drive Pedestrian Bridge** links the Convention Center with the neighborhoods and facilities on the other side of Harbor Drive, such as Petco Park. The bridge permits ballpark visitors, Convention Center guests, and hotel guests to cross Harbor Drive safely, thus resolving major safety and traffic concerns that have existed for years. The $26.8M public infrastructure project, financed entirely by RDA funds, is one of the longest self-anchored pedestrian bridges in the nation.

CCDC led the effort to create a **Quiet Zone** in which trolleys and trains do not have to routinely blow their horns through downtown San Diego's 13 railroad crossings. The $20.9M project eliminated a noise nuisance that has been disturbing residents late into the night for years. It also addressed serious issues related to the companion problem of safety, making extensive safety enhancements and changes to the roadways surrounding the crossings.

Major Plans
On behalf of San Diego's Redevelopment Agency, CCDC performed numerous studies on critical community issues that produced both long-range strategic plans and more specific, immediate plans, including: The 2006 Downtown Community Plan, The C Street Revitalization Master Plan, The North Embarcadero Visionary Plan (NEVP), and The Downtown Exterior Lighting Master Plan and Guidelines.

Housing
Based on the Downtown Community Plan updated by CCDC in 2006, the population of downtown's roughly 1,500-acre area is expected to increase from its present 35,000 residents to 90,000 residents and have as many as 65,000 jobs by 2030.[10] *CCDC sought to ensure that the downtown area contains housing options for people of all incomes*. [11]

According to the San Diego Association of Governments, almost one quarter of the jobs to be created in San Diego in the future will be in the hospitality, retail, and tourism sectors—jobs which pay notoriously low wages, making it almost impossible for workers in those sectors to afford market-rate housing.[12]

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[10] "From the Mayor," *Downtown Today*, p.2
Centre City Development Corporation, Winter/Spring 2010, Issue 61
[11] "A Place for Everyone," *2011 Affordable Housing Update*
Centre City Development Corporation, June 2011
[12] "Housing Day, the Tourism Industry and Subsidies"
by Nico Calavita, *U-T San Diego*, September 17, 2011

Meeting San Diego's need for affordable housing was one of the top priorities for San Diego's Redevelopment Agency.[13] *Since its inception in 1975, CCDC has facilitated the development of 18,205 homes downtown, of which 3,654 are deemed affordable by Federal and State standards.*[14] Working through its tripartite structure, the Redevelopment Agency also used a total of $43M of *downtown* tax increment funds to build approximately 1,000 units of affordable housing outside of the downtown area.

An example of downtown affordable housing properties developed by CCDC is **Ten Fifty B**, a 23-story high-rise located downtown at 1050 B Street. This building represents the new trend toward high-rise affordable housing. The building has 226 affordable units available to very low to low income households. The project was subsidized with $34M of Redevelopment funds.

CCDC was committed not only to providing affordable housing, but also to reducing homelessness downtown by providing a variety of housing options. In 2011, it adopted Affordable Housing Guidelines which require that at least 15% of the units in affordable housing projects receiving redevelopment funds are "supportive housing" units.[15]

The supportive housing program uses a "Housing First" model that strives to meet the client's basic needs first in order to achieve better treatment outcomes.[16] Supportive housing is permanent, affordable housing combined with a range of supportive services. The availability of a place to live stabilizes the lives of those who are homeless or are at high risk of homelessness. In addition to a permanent place to live, those who are eligible for this type of housing receive mental health services, medication management, employment services, and other social services.

Supportive housing has proven to be effective in reducing homelessness in cities nationwide.[17] San Diego's RDA has funded the creation of 206 permanent supportive housing units citywide, with 72 more under construction.

CCDC developed a promising and realistic plan to reduce homelessness through a major increase in the construction of supportive housing over five years. The plan includes an innovative formula for determining the number of supportive housing units needed by balancing the influx of new homeless persons with those leaving the ranks of the homeless population and no longer needing assistance. CCDC's *Five-Year Work Plan Toward Goal of Ending Homelessness in Downtown San Diego* had a goal of building a total of 500 additional supportive housing units dedicated to housing the homeless.

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[13] "A Place for Everyone," *2011 Affordable Housing Update*
Centre City Development Corporation, June 2011

[14] *Affordable Housing Update*
Centre City Development Corporation, 2012

[15] "A Place for Everyone," *2011 Affordable Housing Update*
Centre City Development Corporation, June 2011

[16] *Ibid.*

[17] In Portland, Oregon the number of unsheltered chronically homeless decreased by 70% in two years. See: "A Place for Everyone," *2011 Affordable Housing Update, June 2011*

An example of the involvement San Diego's RDA had in supportive housing is the **Cedar Gateway** apartment complex. All of the 165 units in this project are designated for very low to low income households; thirty-two of these units are designated as supportive housing units.

A different type of housing project that addresses the needs of the homeless in downtown San Diego is **Connections Housing.** For more than a decade a temporary shelter has been located in a six-block area of the East Village and Barrio Logan. City Council members typically fought to keep the temporary shelter out of their neighborhoods. Now a permanent solution has been found. The Connections Housing project is a 223-bed, permanent one-stop-shop for downtown's homeless population.

The $36M project includes 73 permanent housing units, 16 special needs units, 134 interim housing beds, a social service center, and a health clinic. The homeless will occupy cubicles on the third floor for a maximum of six months, after which they will transition to subsidized housing units on the fourth floor. Those occupants will move out once they have secured jobs and housing of their own.

The demise of San Diego's RDA eliminated what had been the largest and most consistent local source of affordable housing.[18] Perhaps most significant of all, San Diego lost the promise of a realistic plan to reduce homelessness downtown and significantly expand the supply of supportive housing units. San Diego also lost much of the new open park space that had been planned as well as the promise of a visionary plan for downtown that would have turned our City into a model of livability and attractiveness, with unique facilities and infrastructure improvements that all San Diegans could have enjoyed.

WINDING DOWN THE DISSOLVED RDA'S BUSINESS

AB 26 required the establishment of "Successor Agencies" to wind down the affairs of the dissolved RDA's throughout the State. San Diego's City Council took on this role and created Civic San Diego, a public non-profit corporation with a *city-wide* focus as the arm of the Successor Agency.

The amount of debt San Diego's dissolved RDA left behind is almost *$2.4 Billion*—an astonishing figure that exceeds the projected 2012 budget deficit for the entire State![19]

The Governor and the State Legislature took the future tax increment revenues that the RDAs had used to secure funding for its projects and had earmarked to pay the debt. The Governor and the State Legislature clearly have an ethical responsibility to pay the items that legitimately comprise redevelopment debt because they diverted the funds that were intended to pay it.

AB26 intended that redevelopment debt would be paid out of tax increment revenues.[20] A trailer bill, AB 1484, detailed a process by which the items that legitimately comprise

[18] "Housing Day, the Tourism Industry and Subsidies" by Nico Calavita, *U-T San Diego, September 17, 2011*

[19] "State Budget Deficit Shrinks" by Judy Lin, *U-T San Diego*, November 14, 2012

this debt will be paid. This process will continue for the life of the debt, which in some cases will be more than 40 years! The Successor Agency was given responsibility for compiling every six months a list of the enforceable obligations due for payment during the next six-month period. The list, known as a Recognized Obligation Payment Schedule, or ROPS, has to be approved by the State Department of Finance (DOF).

However, DOF approval of a ROPS is by no means automatic; items can be disputed and rejected. The approval process has left cities uncertain and apprehensive about what items will get rejected and will have to be paid out of their general fund.

It is not difficult to understand why San Diego's Independent Budget Analyst became alarmed at the prospect that some ROPS items were at risk and reported to the City Council that the ROPS approval process "created deep uncertainty" and an "ongoing high level of risk" to the City's General Fund.[21] San Diego and other cities had made financial decisions and approved projects in the belief that tax increment funds would be there to pay for them. Now they face the need to maintain a high level of reserves that will divert money from other important city needs.

The DOF requires that ROPS be submitted in a special format and within the deadlines it establishes, and it has enforced these requirements strictly. There are large punitive fines ($10,000 per day) for missing deadlines and even more severe fines for failing to adhere to other aspects of the ROPS process. Because a single ROPS can be as much as 80 pages long and can total more than $200M in payments, preparation of a ROPS can be a complex and challenging task. The accuracy and timeliness of a ROPS submittal is obviously very important to a Successor Agency.

No doubt the provisions in AB 26 and AB 1484, as well as DOF's own rules governing eligibility and the ROPS approval process, were intended to assure that the items on ROPS submittals are legitimate redevelopment debt. However, the approval process has become very adversarial and contentious. The time has come for the Governor and the DOF to take positive steps to change the adversarial, punitive culture of ROPS processing and create a more cooperative one that meets and respects everyone's needs.

The Mayor should lead a comprehensive and impactful effort to advocate for this positive change. Prominent business leaders and notable private citizens as well as the general citizenry could be enlisted to help make the Governor and State Legislators attentive to the negative consequences and difficulties the dissolution has created for our City and its residents.

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[20] "Redevelopment And Tax Increment Financing,," *Redevelopment Dissolution*
Los Angeles County, September 13, 2012

[21] "ROPS III, AB 1484 Provision to Remit Unobligated Fund Balances and New Market Tax Credits," p. 8 *Independent Budget Analyst Report No.12-33*, July 30, 2012. One of the ROPS III items the DOF refused to approve is the RDA's contribution to debt service payments for the first Convention Center expansion. The City will now be solely responsible for these payments, which will increase $500,000 each year until they reach $9M in FY 2025-26 and continue at that level through 2041!

An effective effort should be made to convince the Governor to instruct the DOF that its decisions must reflect a genuine intent to mitigate serious negative consequences, whenever appropriate, and demonstrate a willingness to work cooperatively with cities throughout the ROPS process rather than just enforce rules and procedures. The DOF can do so without violating the integrity of its mission and responsibilities as a State agency. The citizenry of San Diego have the right to require that the DOF do so and should be enlisted to actively exercise that right.

THE FUTURE OF REDEVELOPMENT IN SAN DIEGO

Is there any hope that the promise of redevelopment can still be realized in San Diego? Redevelopment in San Diego is unfinished business. Literally! When San Diego's RDA was dissolved, many projects that were underway were left unfinished. Those projects that involve a contract that constitutes a legally enforceable obligation will be completed. Once the State Department of Finance issues a "Finding of Completion" for San Diego's Successor Agency, the unspent bond proceeds from bonds issued prior to January 1, 2011 can be utilized by the Successor Agency for the purposes for which the bonds were issued. There are still other projects that are shovel-ready but cannot proceed because they had not moved to the point of a legally enforceable obligation before the cutoff date. These projects constitute a stockpile of projects that are ready for action if a means can be found to fund them.

It is difficult for the public to obtain current information about the status of planned projects because such information is no longer posted on a website. Information about the wind down activities of the new Civic San Diego is not posted either. This needs to be corrected. Lack of transparency is a matter that has been something of an issue with both CCDC and SEDC in the past.

Despite the dissolution of its RDA and the loss of the tax increment dollars that funded its work, San Diego still has effective options for continuing economic development and revitalization. Details regarding sixteen of these specific programs and potential funding sources are available in *Development Beyond Redevelopment, Opportunities for Community Economic Development*.[22] The City is well-positioned to take advantage of these opportunities. Through their experience, redevelopment personnel in Civic San Diego have honed the skills to establish and maintain the kind of sophisticated public-private partnerships necessary to utilize these resources.

San Diego has already taken steps to apply for funds from some of these programs. For example, on behalf of the City, Civic San Diego has applied for $65M in New Market Tax Credits to fund six planned redevelopment projects in southeastern San Diego.

Individuals who are especially knowledgeable and skilled in identifying and obtaining such funds should be hired to form a specialized work unit within Civic San Diego

[22] *Development Beyond Redevelopment, Opportunities for Economic Development* Goldfarb and Lipman, April 12, 2012. This document is available at www.goldfarblipman.com.

focused on this task. This new work unit should also study redevelopment agencies in other states to identify models that do not depend on property taxes to fund their work.

A portion of the revenues the City receives from the County Auditor-Controller's pass-through and residual tax increment fund distributions could be dedicated to supporting this research and application processing work group within Civic San Diego. The results of this effort should be evaluated after two years to determine if it is effective and should be continued.

City officials should also be monitoring legislative proposals in Sacramento aimed at supporting redevelopment, and they should be actively working with legislators to get such proposals moving forward.

Many civic leaders have stated that redevelopment in the City must continue. The San Diego County Grand Jury agrees. It may not occur on the scale it did before redevelopment died as a result of AB 26, but as the economy slowly recovers, many opportunities for public-private partnerships to undertake redevelopment projects will arise.

Redevelopment is dead! Its legacy in the City of San Diego will live on. However, the City cannot rest on its laurels; despite its past successes, it must turn the page and move on. The dissolution of our RDA must not be the occasion for despair; rather it must be seen as an opportunity to find new ways of continuing the revitalization of our City. Redevelopment itself must be given new life through creative efforts to find the means to continue building a thriving, vibrant City core surrounded by neighborhoods that are also simultaneously undergoing renewal.

Long live redevelopment!

FACTS AND FINDINGS

Fact: San Diego's RDA has a history of extensive achievement. Its efforts have contributed to the removal of blight and to the economic growth of the City.

Fact: Redevelopment in the City is far from complete. There is substantial potential for continued economic growth through completion of new and pending projects.

Fact: Civic leaders and other members of the citizenry have called for redevelopment in San Diego to continue.

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

Fact: The tax increment revenues used to fund redevelopment work in the past are no longer available.

Fact: A stockpile of redevelopment projects exists, including many that are shovel-ready.

Fact: There are potential sources of new revenue—some of which Civic San Diego is already pursuing—that Civic San Diego can try to tap into to implement these projects.

Fact: There is strong competition for the funds available from these sources.

Fact: Civic San Diego does not have sufficient staff with the specialized knowledge and experience necessary to compete successfully in applying for these new sources of funds.

Fact: Civic San Diego *does have* former CCDC and SEDC personnel who have the skills and experience to establish the sophisticated public/private agreements necessary to utilize such new funds and complete redevelopment projects.

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.

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.

Fact: There are redevelopment agencies across the country. Many of these agencies do not use property tax revenues to fund their redevelopment work.

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.

Fact: The total debt left behind by San Diego's dissolved RDA is almost *$2.4 billion*! This debt is the consequence of a RDA that was extremely active and successful.

Fact: In 1952, Proposition 18 was passed as an amendment to the State Constitution. It established "tax increment" property tax revenue to be used to fund the work of the redevelopment agencies statewide. This constitutional amendment specifically authorized redevelopment agencies to use future tax increment revenues as security for the issuance of bonds and other financial obligations, and for the payment of such obligations.

Fact: San Diego's RDA did in fact use the promise of future tax increment revenues for this purpose. Those who purchased bonds and signed agreements relied on this security.

Fact: AB 26, the "Dissolution Act," stated a clear intent that legitimate redevelopment debt be paid out of tax increment funds.

Fact: The Governor and the Legislature took the current funds the RDAs had accumulated and redirected future tax increment revenues. The money is gone!

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.

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.

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.

Fact: On the authority of AB 26 and AB 1484, the State Department of Finance (DOF) has established a complex, multi-tiered approval process. Every six months Successor Agencies submit lists of individual debt obligations scheduled for payment—known as Recognized Obligation Payment Schedules (ROPS)—to the DOF for review and approval or rejection.

Fact: Approval of the items on a ROPS is not guaranteed. They are subject to the approval of the Successor Agency's Oversight Board and the DOF.

Fact: Compiling a ROPS for submittal is a high volume, high dollar process. An individual ROPS can be more than 80 pages long and have a dollar value in excess of $200M! Firm deadlines and specific format requirements have been established by the DOF. A new ROPS is compiled and submitted every six months. The process is extremely time-consuming and potentially could continue for 40 years or more.

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.

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

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 detracting from the ability of Civic San Diego employees to focus on the full range of their duties.

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.

Fact: CCDC, with the help of consultants, prepared and published a *Five-Year Work Plan Toward Goal of Ending Homelessness in Downtown San Diego*.

Fact: A critical element in that plan is the construction of sufficient supportive housing units to reduce homelessness. The plan utilizes an innovative formula that determines the net number of new units required by balancing the influx of new homeless persons with the number of persons no longer needing this assistance.

Fact: The plan included collaborating and partnering with other groups who would provide services to those living in the supportive housing units.

Fact: Funds to construct supportive housing as specified in the plan are no longer available to Civic San Diego or the City.

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

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

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

Fact: Information regarding the status and outcome of redevelopment projects virtually stopped with the dissolution of the City's RDA. Updates on projects are no longer posted or published.

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.

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.

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.

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.

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.

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.

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.**

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.

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.

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

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.

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.

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.

REQUIREMENTS AND INSTRUCTIONS

The California Penal Code §933(c) requires any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency. Such comment shall be made *no later than 90 days* after the Grand Jury publishes its report (filed with the Clerk of the Court); except that in the case of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such comment shall be made *within 60 days* to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code §933.05(a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

(a) As to each grand jury finding, the responding person or entity shall indicate one of the following:

(1) The respondent agrees with the finding

(2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

(b) As to each grand jury recommendation, the responding person or entity shall report one of the following actions:

(1) The recommendation has been implemented, with a summary regarding the implemented action.

(2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.

(3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.

(4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.

(c) If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected

> officer, both the agency or department head and the Board of Supervisors shall respond if requested by the grand jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with the Penal Code §933.05 are required from the:

Responding Agency	Recommendations	Date
Mayor, City of San Diego	**13-1, 13-2, and 13-7 through 13-12**	**7/29/13**
City Council, City of San Diego	**13-3 through 13-12**	**7/29/13**