



THE CITY OF SAN DIEGO
INTERIM MAYOR
TODD GLORIA

RECEIVED
SEP 20 2013

September 17, 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 provides the following joint response 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 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.

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 2, 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.

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 2. 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. 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 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 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).

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 Attachment 2. 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;
- 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.

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.

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 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 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,

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.

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.

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.

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.

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 3 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.

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.

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 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
Interim Mayor/Council President
City of San Diego

Encl: Attachment 1: Potential Legislative Amendments to Redevelopment Dissolution Laws
Attachment 2: Urban Land Institute August 30, 2013 Memo
City Council Resolution R-308409