




OFFICE OF MAYOR JERRY SANDERS

MEMORANDUM

DATE: November 12, 2010

TO: Honorable City Council

FROM: Job Nelson, Director of Intergovernmental Relations 

RE: SB 863-Raising of the Centre City Development Cap

As part of the Budget Special Session, the Intergovernmental Relations Department supported and helped to craft special legislation that would legislatively lift the cap for the Centre City Redevelopment Area in downtown San Diego. The passage of this legislation in no way alters the fact that the City Council acts as the Redevelopment Agency. The Council, relying at minimum upon the normal public process, will have to approve any expenditure of these new funds. In fact, a series of public hearings to develop plans for the expenditure of these funds will take place. It also, should be noted, that the Mayor has publicly committed to continuing negotiations with the County of San Diego and other impacted local agencies.

The lifting of a redevelopment cap legislatively is not a new idea. Last year the California Senate proposed allowing redevelopment agencies to voluntarily give up redevelopment dollars in exchange for extending time caps for given areas and middle of this year the City received overtures from other redevelopment areas about pursuing a broader piece of legislation again to lift both time and financial caps for participating redevelopment agencies. This type of legislation was not unprecedented; a similar action was taken last year and signed on behalf of the Governor for the City of Glendora.

In August and September, IRD began the process of due diligence on what the options were in case the City should have to respond again to state proposals or maybe even pursue such legislation on our own if the opportunity presented itself. We worked extensively with leadership at CCDC and their Counsel to make sure all the legislative and legal issues surrounding a cap raise had been vetted.

Because the lateness of the budget and the need for a special session, we were indeed presented with the unique opportunity and IRD worked jointly with Assemblymember Fletcher and other members of our delegation to secure the passage of such a bill.

Since the passage of the bill, several concerns have been raised. First, some have questioned the motivations for pursuing the cap raise at all. All project areas adopted after January 1994 do not have any dollar limits on the amount of tax increment (CAP) that can be received, only time limits. The Centre City RDA came into existence pre-1994 and found itself saddled with a financial cap as well as a time limit cap. This legislation lifted the financial cap. Changing time limits in San Diego was **not** part of the bill. With the elimination of the CAP redevelopment activities could continue through 2033, otherwise, redevelopment efforts would have ceased in 2023-2024 when the Dollar Cap was expected to be reached.

By eliminating the CAP in the Centre City Redevelopment Project Area the following additional future benefits will inure to both the State and the City:

- Private investment will increase another \$10 billion in the next 20 years.
- Nearly 50,000 additional construction jobs will be created, reducing unemployment.
- 60,000 permanent jobs will be created resulting from the continued redevelopment efforts in downtown San Diego, reducing unemployment.
- Estimated sales taxes in the amount of \$1.1 billion will be generated to the State between the years 2011 and 2043 resulting from development of an additional 2.7 million square feet of retail space in downtown San Diego.
- 20% of all new property taxes will be set aside for affordable housing resulting in the development of an estimated 4,600 affordable housing units, relieving the potential of increased homelessness.
- Transient Occupancy Tax received will increase by approximately \$375 million with the anticipated development of an additional 4,000 new hotel rooms in downtown San Diego bringing tourist and conventioners into the State, enhancing the economy.

In fact, The Office of the Independent Budget Analyst estimates that removing the tax increment cap will be a **net positive for San Diego's General Fund** - possibly a net gain of over \$230 million through 2043.

The second concern raised was whether it was even necessary to pursue this legislation because the City could seek to amend the cap by seeking an RDA amendment. While this is true, such an action would have cost the City at least \$500,000 in consultant fees, led to a tremendous amount of legal uncertainty and delayed the raising of the cap by at least a year (assuming there were no legal challenges). This delay would prevent construction dollars from being pumped into the local economy to create jobs at a time when they are needed the most.

A third allegation was the propriety of IRD and CCDC pursuing such legislation without significant Council involvement. While Intergovernmental Relations is an executive branch function, this action was completely compatible with the City's Legislative Guidelines.

VIII- C Support efforts to develop increased Federal and State financial support for and participation in economic and community development programs with local government maintaining final control of planning and implementation for the following goals:

1. Maintain and create tax incentives for private revitalization of existing commercial, industrial and housing resources where such assistance produces net tax and social/community benefits to the City.
4. Support efforts to retain and create financial incentives for private investment in the revitalization of commercial, industrial and residential areas of the City including redevelopment project areas and enterprise zones.
5. Support efforts to retain and increase the ability of the Redevelopment Agency to undertake revitalization of blighted areas through tax increment financing, limitations on toxic cleanup liability, condemnation powers and other strategies as appropriate.

Additionally, as noted earlier this legislation in no way eliminated or altered the Council's authority to approve Redevelopment projects. Also, Council members serve on the San Diego Redevelopment Agency, ensuring the public has input regarding the use of tax dollars. The Mayor has forwarded a proposal to your Council for an extensive public outreach and comment process designed to encourage public participation in the decision making process going forward.

Lastly, some have questioned the appropriateness of the process by which the legislation was passed. Because of concerns related to certain Los Angeles stakeholders sidetracking the bill, the City's lobbying team, decided strategically to keep details surrounding the bill quiet. While many do not like the special session expedited legislative process that was used, it is not an uncommon way to pass legislation. In fact there were 11 pieces of legislation (10 of which passed—the City was successful in staving off an attempt by the online travel companies to exempt themselves from local taxation) that were not integral to the budget that were passed along with the budget. This bill was legally vetted by legal counsel both here and in Sacramento-- Legislative Counsel reviews and drafts language for every bill.

If we would have waited till next year for full legislative vetting including committee hearings we would have lost many of the benefits including reduced delay and not having to spend money on consultants.