



December 11, 2020

TO: CADA Board of Directors

**SUBJECT: December 18, 2020, Board Meeting
AGENDA ITEM 10
FISCAL YEAR 20-21 MID-YEAR REVISIONS TO THE GENERAL
OPERATIONS BUDGET AND CAPITAL INVESTMENT PROGRAM
BUDGETS, INCLUDING ASSESSMENT OF FUND BALANCES**

CONTACT: Noelle Mussen, Finance Director

RECOMMENDED ACTION:

Staff recommends that the Board adopt a resolution approving mid-year revisions to the FY 20-21 Annual General Operations Budget and the Capital Investment Program (CIP) Budgets as follows:

- Revise the FY 20-21 General Operations Budget to effect a net increase of \$30,936,836. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, bond proceeds and drawdowns on reserves. This revision is proposed to fund increases for CIP budgets, reserve contributions, and general expense accounts.
- Revise Development CIP Budgets to
 - Increase the FY 04-05 Budget by \$55,000
 - Increase the FY 08-09 Budget by \$1,929
 - Increase the FY 19-20 Budget by \$70,000
 - Increase the FY 20-21 Budget by \$202,500, to reflect a new project.
- Revise Bond Issue CIP Budgets to
 - Include a proposed new FY 20-21 Bond Issue Budget of \$30 million
- Revise Reserves to
 - Increase the Development Reserve by \$115,406
 - Increase the Debt Retirement Reserve for Somerset Parkside and Biele Place Special Management properties by \$212,000

BACKGROUND

Each year, staff reviews the adopted annual budget at mid-year for necessary and appropriate revisions. These revisions can be a result of year-to-date trends, economic conditions, specific unanticipated transactions, and/or changes in the scheduling of property management and

development activities. Mid-year revisions are then presented to the Board for adoption and immediate implementation.

In accordance with budget policy, the General Operations Budget is an annual budget which reflects funding sources and expenditures for CADA's on-going operational activities. The Capital Investment Program Budgets are multi-year budgets that classify major construction, development projects, and bond program projects by the fiscal year in which they were first budgeted. All budgets meet CADA's balanced budget directive. The activities of multiple funds are consolidated into the budget presented for adoption by the Board in an all-funds format. **Attachment 1** provides a description of each fund.

Special Management Fund Budgets (Somerset Parkside, Biele Place, and 17th Street Commons) are incorporated into the budget in June, subject to receiving confirmation of approval by the state Department of Housing and Community Development (HCD) for Somerset Parkside and Biele Place, and the California Housing Finance Agency (CalHFA) for 17th Street Commons. CADA has received budget approval from CalHFA for 17th Street Commons and approval from HCD for Somerset Parkside and Biele Place.

POLICY ISSUES

The General Operations Budget and the Capital Investment Program Budget reflect the revenues and expenses associated with implementing the priorities established by the Board. The proposed mid-year revisions continue to adhere to the CADA balanced budget directive such that total budgeted revenues equal total budgeted expenditures.

FINANCIAL IMPACT

General Operations Budget

The net increase in CADA's General Operations Budget resulting from the proposed mid-year revision is \$30,936,836.

The Funding Sources for the proposed midyear budget revisions include Tax Increment, Rental Revenue, Development Reserves and Taxable Bond proceeds. The proposed increases to funding sources' amounts include:

- An increase of \$781,836 from tax increment revenue received but not utilized in the prior year, made available through the utilization of the available fund balance.
- A drawdown of \$155,000 from the R Street Development Reserves
- New 2020 Taxable Bond issue proceeds of \$30,000,000.

The proposed mid-year budget revision reflects a decrease in funding source, as follows:

- \$107,000 decrease to Commercial revenue of \$58,000 and Ground Lease Revenue of \$49,000 due to additional rent credits given for COVID relief in response to mandated shutdowns and other restrictions.

Proposed midyear budget revisions for the Use of Funds include the following:

- An increase to Salaries of \$69,000. This is mainly due to increases in staffing levels for a new administration position in Maintenance and merit increases retroactive to July.
- An increase to the Asset Management Other Professional services of \$26,000 to contract for consultant services to complete an energy audit of six CADA buildings with the highest energy usage and offer energy reduction alternatives and associated costs and payback times.
- An increase to Landscaping of \$50,000 due to additional work needed on the properties for tree terming services and landscape replacement due to construction activity.
- An increase of \$10,000 to the Admin Temp Services account to cover additional costs incurred for temporary services in the Leasing department.
- An increase to the Appliance Maintenance account of \$10,000 because of increasing costs due to Covid-generated parts shortages over the last few months.
- An increase of \$7,500 to the Emergency Relocation account for additional funding needed to cover potential needs through the end of the fiscal year.

Capital Investment Program Budget

The Capital Investment Program (CIP) Budget is composed of multiple budgets. Once a project is established, the sources of funds used to fund the project and the project costs that are incurred continue to be accounted for in the CIP budget established during the year in which the project was initiated. Major Construction CIP budgets are multi-year budgets for individual projects initially funded in a given fiscal year. These budgets remain active and open for a total of three years. Development CIP Budgets are multi-year budgets for individual projects initially funded in a given fiscal year. These budgets consist of Development projects and Bond projects (unexpended proceeds from the refunded 2016 Bond Issue and the new 2020 Bond Issue), which stay open for the life of the project.

Project costs are funded by Reserve Drawdowns, investment in the CIP out of the General Operations Budget, and Other Sources (such as Tax Increment, Interest Income, Debt Financing and Bond Proceeds). While Reserve Drawdowns and General Operations Rental Revenue can generally be used for any type of project, there are restrictions as to how CADA can use its tax increment and bond funds. Should there be changes to a project that make it ineligible for the funding stream initially used, CADA must reallocate the types of funds used to fund that project.

Major Construction CIP Budget

No mid-year revisions are proposed for the FY 18-19, FY 19-20 or FY 20-21 Major Construction budgets.

Development CIP Budgets: Following are the proposed adjustments for the Development CIP Budgets, with funding sources from General Operations funded by the prior year's remaining tax increment received but not utilized in the prior year:

- For the FY 04-05 Development budget, the proposed revision is an increase of \$55,000 in the R Street Development project budget for Site Improvements to offer COVID relief to businesses along the R Street corridor.

- For the FY 07-08 Development budget, the proposed revision is an increase of \$1,929 in the Site 21 project budget for legal expenses to close out this budget.
- For the FY 18-19 Development budget, the proposed revision is an increase of \$70,500 in the Courtyard Site 16A project budget to provide additional funding for predevelopment expenses to allow CADA to continue to pursue tax credit project funding in this fiscal year.
- For the FY 20-21 Development Budget, there are two new projects requiring a total of \$202,500. First, the budget includes a proposed new Site 21 project budget at \$102,500 to provide funding for predevelopment expenses for a market-rate project on this site to replace the Cresleigh concept. Second, the budget reflects a proposed new project at 805 R Street that will require \$100,000 to provide funding for predevelopment expenses for a possible affordable housing project on that site.
- There are no proposed mid-year revisions for the other Development budgets.

Bond Issue CIP Budget: There is no proposed adjustment to the remaining refinanced 2016 bond proceeds. There is approximately \$191,000 in undesignated Taxable Low/Mod Housing bond proceeds remaining which are reflected in the budget.

Staff proposes a new FY 20-21 budget for the 2020 Taxable Bond Issue in the amount of \$30 million. The proposed budget would be Bond proceeds according to their payment sources and General pre-development expenses .

General Operations Designated Reserves

For Designated Reserves, the proposed adjustments include the following:

- An increase of \$115,406 to the Development Reserves to continue to set aside funds for future development project needs.
- An increase to the Debt Retirement Reserve of \$212,000 for the two deferred loans CADA has with HCD for the Somerset Parkside and Biele Place Special Management properties.

Table 1 below presents the proposed adjustments to the projected Designated Reserves and the projected reserve balances as of June, 30, 2020.

TABLE 1 - Proposed Adjustments to Designated Reserves and Projected Reserve Balance

	Actual 6/30/2020	Budget (Adopted)	Midyear Rev (Proposed)	Projected 6/30/20
<u>Designated Reserves (General Operation)</u>				
Operations Contingency	\$ 685,144	\$ -	\$ -	685,144
Development Reserve	1,343,465	(622,098)	115,406	836,773
Affordable Housing Reserve	928,947	181,720	-	1,110,667
Capital Improvement Reserve	400,000	-	-	400,000
Equipment Replacement Reserve	75,000	-	-	75,000
Debt Retirement Reserve	955,000	-	212,000	1,167,000
Acquisition Reserve	1,350,149	(1,350,149)	-	-
Self-Insured Risk Reserve	675,000	-	-	675,000
	<u>\$ 6,412,705</u>	<u>\$ (1,790,527)</u>	<u>\$ 327,406</u>	<u>\$ 4,949,584</u>
<u>Designated Reserves (Special Management)</u>				
Equipment Replacement Reserve	\$ 378,476	\$ 23,883	\$ -	\$ 402,359
Operation Reserve - Somerset & Biele	106,426	-	-	106,426
	<u>\$ 484,902</u>	<u>\$ 23,883</u>	<u>\$ -</u>	<u>\$ 508,785</u>
<u>Designated Reserves (R Street)</u>				
Development Reserve	\$ 2,595,816	\$ 786,620	\$ -	\$ 3,382,436
Affordable Housing Reserve	915,686	(354,715)	-	560,971
	<u>\$ 3,511,502</u>	<u>\$ 431,905</u>	<u>\$ -</u>	<u>\$ 3,943,407</u>
<u>Designated Reserve (Bond Interest)</u>				
Development Reserve	\$ 7,249	\$ -	\$ -	\$ 7,249
	<u>\$ 7,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,249</u>

CADA's Unrestricted Fund Balance remains sufficient to provide approximately six months of General Operations expenses, fund currently budgeted capital investments, and cover all outstanding encumbrances.

STRATEGIC PLAN

The Strategic Plan Goal most directly pertinent to this action is "Fiscal Responsibility," but adoption of a well-conceived budget will assist in the fulfillment of all of CADA's Strategic Plan goals.

ENVIRONMENTAL REVIEW

Not applicable – the recommended action is not a project pursuant to the California Environmental Quality Act (CEQA) guidelines and does not require environmental review.

CONTRACT AWARD CONSIDERATIONS

Not applicable – the recommended action will not involve the awarding of contracts.

Attachments:

1. FY 2020-21 CADA Fund Descriptions

Attachment 1 Fund Descriptions

General Fund (F 10)	Includes the General Operations Budget, the Major Construction Budget and the Development Projects Budgets.
Non-profit Fund (F 20)	In 2014 the authority created a non-profit entity, the Capitol Area Community Development Corporation.
<p>Special Management Funds</p> <ul style="list-style-type: none"> • Somerset Parkside (F36) • Biele Place (F37) • 17th Street Commons (F38) • Fremont/Wilshire (F41) 	<p>Includes five Special Management funds for which external governmental agencies have varying degrees of oversight (e.g. budget approval and debt restrictions). Agencies having oversight include Department of Housing & Community Development (HCD) for Funds 36 & 37 and California Housing Finance Agency (CalHFA) for Fund 38.</p> <p>Also includes a special management fund for the Fremont Wilshire buildings, which is not subject to external government agency oversight.</p>
<p>Tax Increment Funds</p> <ul style="list-style-type: none"> • CAP Tax Increment (F50) • CAP Housing Set-Aside (F51) • R St. Tax Increment (F60) • R St. Housing Set-Aside (F61) • R Street PBID (90) 	<p>Includes four (4) funds that ensure accountability for the receipt and expenditure of Tax Increment Revenue. Revenue from the R St. expansion of CADA's boundaries must be accounted for separately from the CAP area (F60 & F61). In addition, 20% of each area's revenue is further restricted for the creation and support of affordable housing (F51 & 61). The R Street PBID (90) is a fund to account for Tax assessments received and disbursed to the R Street PBID non-profit.</p>
<p>Bond Debt Service Funds</p> <ul style="list-style-type: none"> • Tax Exempt Bond (F65) • Taxable Bond (F66) 	<p>Funds established to reflect the remaining balance of bonds issued July 2004, as well as investment income earned on the reserves and remaining unspent bond proceeds.</p>
<p>Special Revenue Funds</p> <ul style="list-style-type: none"> • Funds Held in Trust (F76) • 19th and Q Dog Park (F77) 	<p>These funds were established for a specific purpose with separate funding sources and require separate accounting.</p>
<p>Tax Allocation Bond Proceeds Funds</p> <ul style="list-style-type: none"> • Tax Exempt CAP (F80) • Tax Exempt CAP Low/Mod (F81) • Tax Exempt R St (F82) • Tax Exempt R St Low/Mod (F83) • Taxable CAP (F84) • Taxable CAP Low/Mod (F85) 	<p>The Authority issued Tax Allocation Bonds in July 2004. The six different funds are required for the various components of this issuance as they relate to taxability, affordability requirements, and the areas (CAP versus R St) from which the tax increment pledged is generated.</p>

RESOLUTION NO. 20 - 37

Adopted by the Capitol Area Development Authority

December 18, 2020

RESOLUTION ADOPTING THE FISCAL YEAR 2020 -2021 MID-YEAR REVISION TO THE GENERAL OPERATIONS BUDGET AND CAPITAL INVESTMENT PROGRAM (CIP) BUDGETS

WHEREAS, the FY 2020-2021 General Operations Budget and Capital Investment Program Budgets are prepared in accordance with the business development goals set forth in the Authority's Strategic Plan and the Annual Business Plan for FY 2020-2021 and were adopted at the June 2020 Board Meeting; and

WHEREAS, the Mid-Year Revisions recommended for adoption have been presented and reviewed at this meeting of the Board of Directors.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Capitol Area Development Authority that the Mid-Year Revisions that affect the following changes, as presented at this meeting, are hereby adopted:

- Revise the FY 20-21 General Operations Budget to affect a net increase of \$30,936,836. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, bond proceeds and drawdowns on reserves. This revision is proposed to fund increases for CIP budgets, reserve contributions, and general expense accounts.
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Ann Bailey, Chair

ATTEST:

Jill Azevedo
Acting Secretary to the Board of Directors