



December 3, 2021

TO: CADA Board of Directors

**SUBJECT: December 10, 2021, Board Meeting
AGENDA ITEM 7
FISCAL YEAR 21-22 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 21-22 Annual General Operations Budget and the Capital Investment Program (CIP) Budgets as follows:

- Revise the FY 21-22 General Operations Budget to effect a net increase of \$5,004,258. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, 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:
 - Decrease the FY 20-21 Budget by \$635,000
 - Increase the FY 21-22 Budget by \$3,915,000, to reflect a new project
- Revise Major Construction CIP Budgets to:
 - Increase the FY 21-22 Budget by \$83,404
- Revise Reserves to:
 - Increase the Development Reserve by \$428,754
 - Increase the Debt Retirement Reserve for Somerset Parkside and Biele Place Special Management properties by \$212,000
 - Increase the Capital Improvement Reserve by \$175,000

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 \$5,004,258.

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

- An increase of \$1,724,258 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 \$3,280,000 from the R Street Development Reserves

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

- Reduction to Net Rental Income with increases to the Vacancy Loss account by \$200,000 and the Loss to Lease account by \$460,000, primarily reflecting the impact of the Pandemic on CADA's commercial and residential rental revenues

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

- An increase to Insurance of \$79,100 due to a higher-than-anticipated increase to CADA's insurance premiums. We had budgeted for a 30% increase, but the actual increase was closer to 50%.

- An increase to the Service Contract account of \$50,000 due to repair, maintenance and chemical treatments required for boilers at CADA's various properties.
- A \$6,000 increase to the Fuel account for Maintenance because of increasing gas costs which have occurred over the last few months.
- A \$30,000 increase to Maintenance Machine & Equipment account for the purchase of a new vehicle needed by Maintenance for the recently-filled Maintenance Specialist position.

Capital Investment Program Budget

The Capital Investment Program (CIP) Budget is composed of multiple budgets. Once a CIP 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 19-20 and FY 20-21 Major Construction Budgets. For the FY 21-22 Major Construction budget, the proposed increase of \$83,404, funded through available tax increment, includes the following:

- A total increase of \$34,000 to this budget for two new projects budgeted at \$17,000 each for likely tenant improvements to the two vacated commercial spaces on 10th Street.
- A \$49,404 increase to this budget to fund a shortfall in remaining funding from the close out of the FY 18-19 CIP budget which partially funded the FY 21-22 CIP budget. This is due to timing of the preparation and approval of the FY 21-22 budget and the timing of expenses occurring after budget preparation.

Due to the timing of an expense to a tenant in June 2019, expenses expected to occur in the new fiscal year ended up being expensed in the original closed out budget, resulting in the funding and related project expenses in the FY 19-20 budget needing to be reduced.

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 20-21 Development Budget the proposed revision is a decrease of \$635,000 to close out the 805 R Street project. These funds are proposed to fund, in part, a new

project at the 2000 16th Street property which is currently in escrow for purchase by CADA.

- For the FY 21-22 Development Budget, there is a proposed new project that will require \$3,280,000 for the purchase of the property and \$635,000 to provide funding for predevelopment expenses for a possible affordable housing project on that site, for a total of \$3,915,000.
- 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 or the 2020 Bond proceeds.

General Operations Designated Reserves

For Designated Reserves, the proposed adjustments include the following:

- An increase of \$428,754 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.
- An increase of \$175,000 to the Capital Improvement Reserves to replace funds drawn down in the prior year for funding the 10th Street Commercial project.
- A draw-down of \$3,280,000 from the R Street Development Reserves for the purchase of property for an affordable housing project.

Table 1 below presents the proposed adjustments to the projected Designated Reserves and the projected reserve balances as of June, 30, 2021.

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

	Actual 6/30/2021	Budget (Adopted)	Midyear Rev (Proposed)	Projected 6/30/22
<u>Designated Reserves (General Operation)</u>				
Operations Contingency	\$ 685,144	\$ -	\$ -	685,144
Development Reserve	640,820	-	428,754	1,069,574
Affordable Housing Reserve	928,947	-	-	928,947
Capital Improvement Reserve	225,000	-	175,000	400,000
Equipment Replacement Reserve	75,000	-	-	75,000
Debt Retirement Reserve	1,167,000	-	212,000	1,379,000
Acquisition Reserve	-	-	-	-
Self-Insured Risk Reserve	675,000	-	-	675,000
	<u>\$ 4,396,911</u>	<u>\$ -</u>	<u>\$ 815,754</u>	<u>\$ 5,212,665</u>
<u>Designated Reserves (Special Management)</u>				
Equipment Replacement Reserve	\$ 529,246	\$ 13,883	\$ -	\$ 543,129
Operation Reserve - Somerset & Biele	106,576	-	-	106,576
	<u>\$ 635,822</u>	<u>\$ 13,883</u>	<u>\$ -</u>	<u>\$ 649,705</u>
<u>Designated Reserves (R Street)</u>				
Development Reserve	\$ 3,571,584	\$ -	\$ (3,280,000)	\$ 291,584
Affordable Housing Reserve	778,512	280,085	-	1,058,597
	<u>\$ 4,350,096</u>	<u>\$ 280,085</u>	<u>\$ (3,280,000)</u>	<u>\$ 1,350,181</u>
<u>Designated Reserve (Bond Interest)</u>				
Development Reserve	\$ 165,091	\$ -	\$ -	\$ 165,091
	<u>\$ 165,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,091</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 2021-22 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 & F61). The R Street PBID (F90) 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) 	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>Special Revenue Funds</p> <ul style="list-style-type: none"> • Funds Held in Trust (F76) • 19th and Q Dog Park (F77) 	These funds were established for a specific purpose with separate funding sources and require separate accounting.
<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) 	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.

RESOLUTION NO. 21 - 42

Adopted by the Capitol Area Development Authority

December 10, 2021

**RESOLUTION ADOPTING THE FISCAL YEAR 2021 -2022
MID-YEAR REVISION TO THE GENERAL OPERATIONS BUDGET AND
CAPITAL INVESTMENT PROGRAM (CIP) BUDGETS**

WHEREAS, the FY 2021-2022 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 2021-2022 and were adopted at the June 2021 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 21-22 General Operations Budget to affect a net increase of \$5,004,258. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, 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:

Tara Gandara
Secretary to the Board of Directors