



December 12, 2022

TO: CADA Board of Directors

**SUBJECT: December 16, 2022, Board Meeting
AGENDA ITEM 7
FISCAL YEAR 22-23 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 22-23 Annual General Operations Budget and the Capital Investment Program (CIP) Budgets as follows:

- Revise the FY 22-23 General Operations Budget to effect a net increase of \$4,067,111. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, and proceeds from the sale of property. This revision is proposed to fund increases for CIP budgets, reserve contributions, and general expense accounts.
- Revise Development CIP Budgets to
 - Increase the FY 18-19 Budget by \$69,000.
- Revise Major Construction CIP Budgets to
 - Increase the FY 22-23 Budget by \$229,000
- Revise Reserves to
 - Increase the Development Reserve by \$623,911
 - Increase the Debt Retirement Reserve for Somerset Parkside and Biele Place Special Management properties by \$324,000
 - Increase the Acquisition Reserve by \$2,632,000

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 \$4,067,111.

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 \$1,435,111 from tax increment revenue received but not utilized in the prior year, made available through the utilization of the available fund balance.
- An increase of \$2,632,000 from the proceeds of the sale of Site 21 to D&S Development to develop the Cypress project at 14th and N Streets.

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

- An increase to the Salaries account of \$45,000 for a budget adjustment to reflect the change in leasing staff from a part-time leasing agent to a full-time leasing agent. This increase is also providing funding for possible retired annuitant expenses if the retiring Executive Director's assistance is needed in the future.
- An increase to Asset Management Other Professional Services account of \$30,000 to continue to contract for consultant services to complete an energy audit on another six buildings to offer energy reduction alternatives and associated costs and payback times.
- An increase to Property Management Other Professional Services account of \$15,000 to budget for possible brokerage fees to help find a tenant for the newly vacated Urban Yogi space.
- An increase to the Insurance account of \$20,000 due to a higher-than-anticipated increase to CADA's insurance premiums. We had budgeted for a 15% increase, but the actual increase was closer to 20%.

- An increase to the Leased Facilities Rent account of \$14,200 to lease space at 712 R street from March to the end of the fiscal year. This is to give Maintenance additional storage space in order to centralize their inventory near the maintenance office.
- An increase to the Garbage account of \$38,000 due to the CADA residential trash hauling bid coming in higher than originally budgeted.
- An increase to the Painting account of \$50,000 to allow Maintenance to contract out for additional painting services for projects at CADA's various properties.

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 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 20-21 and FY 21-22 Major Construction Budgets. For the FY 22-23 Major Construction budget the proposed increase of \$244,000, funded through available tax increment, includes the following:

- A total increase of \$184,000 to this budget for multiple improvements to various vacated commercial spaces and spaces that are anticipated to be vacated. The proposed budgets are for Mud Pie Stand, Urban Yogi, Bagel Time, Le Croissant, and a few other commercial space tenancies we anticipate will become vacant or change hands early in 2023. This funding is mainly for architectural and structural improvements to these spaces.
- An increase of \$50,000 to improve the courtyard at 1420 O Street filling in the existing pool, removal and replacement of a portion of the patio, and creation of new planter beds with climate-appropriate plantings.
- An increase of \$10,000 at 1316 O street for landscape improvements, including conversion of the existing turf to climate-appropriate plantings and other upgrades.

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 18-19 Development Budget, the proposed revision is an increase of \$69,000 to the 10th Street Commercial Improvement project budget to provide funding for additional site improvements including a lunch counter on 10th street, a pet waste station, bike racks, and fencing along 11 & P Streets; funding for landscape architect fees for the fencing; and anticipated permit fees for all of the above improvements, which are to be installed in the City right-of-way and require a City-issued encroachment permit and City design reviews.
- There are no proposed mid-year revisions for the other Development budgets.

Bond Issue CIP Budget: There is no proposed mid-year adjustment to the 2020 Bond proceeds. The table below shows how the 2020 proceeds are currently budgeted.

TABLE 3 - 2020 Taxable Bond Proceeds						
		Original	Previous	Current	Total	Remaining
		<u>Budget</u>	<u>Budgeted</u>	<u>Proposed</u>	<u>Budget</u>	<u>Proceeds</u>
<u>Funding Sources</u>						
	Available Proceeds	30,000,000	(1,423,100)	(3,032,000)	(4,455,100)	25,544,900
<u>Development Expenses</u>						
	Courtyard Site 16A - Sonrsia		808,100	880,000	1,688,100	-
	O Street Streetscape		615,000	1,152,000	1,767,000	-
	805 R Street	-		1,000,000	1,000,000	-
		<u>\$ 30,000,000</u>	<u>\$ 1,423,100</u>	<u>\$ 3,032,000</u>	<u>\$ 4,455,100</u>	<u>\$ -</u>

General Operations Designated Reserves

For Designated Reserves, the proposed adjustments include the following:

- An increase of \$585,911 to the Development Reserves to continue to set aside funds for future development project needs.
- An increase to the Debt Retirement Reserve of \$324,000 for the two deferred loans CADA has with HCD for the Somerset Parkside and Biele Place Special Management properties.
- An increase of \$2,632,000 to the Acquisitions Reserves funded from the proceeds of the purchase of Site 21 by D&S Development. This is to replace funds drawn on in the prior year to purchase this site back from the previous developer.

Table 1 below presents the proposed adjustments to the projected Designated Reserves and the projected reserve balances as of June, 30, 2022.

TABLE 1 - Proposed Adjustments to Designated Reserves and Projected Reserve Balance				
	Actual	Budget	Midyear Rev	Projected
	6/30/2022	(Adopted)	(Proposed)	6/30/23
Designated Reserves (General Operation)				
Operations Contingency	\$ 685,144	\$ -	\$ -	685,144
Development Reserve	1,069,574	-	585,911	1,655,485
Affordable Housing Reserve	928,947	-	-	928,947
Capital Improvement Reserve	400,000	-	-	400,000
Equipment Replacement Reserve	75,000	-	-	75,000
Debt Retirement Reserve	1,379,000	-	324,000	1,703,000
Acquisition Reserve	-	-	2,362,268	2,362,268
Self-Insured Risk Reserve	675,000	-	-	675,000
	\$ 5,212,665	\$ -	\$ 3,272,179	\$ 8,484,844
Designated Reserves (Special Management)				
Equipment Replacement Reserve	\$ 559,509	\$ (112,117)	\$ -	\$ 447,392
Operation Reserve - Somerset & Biele	106,629	-	-	106,629
	\$ 666,138	\$ (112,117)	\$ -	\$ 554,021
Designated Reserves (R Street)				
Development Reserve	\$ 364,321	\$ 814,410	\$ -	\$ 1,178,731
Affordable Housing Reserve	1,076,782	326,630	-	1,403,412
	\$ 1,441,103	\$ 1,141,040	\$ -	\$ 2,582,143
Designated Reserve (Bond Interest)				
Development Reserve	\$ 168,122	\$ -	\$ -	\$ 168,122
	\$ 168,122	\$ -	\$ -	\$ 168,122

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 2022-23 CADA Fund Descriptions

Attachment 1 Fund Descriptions

General Fund (F10)	Includes the General Operations budget, the Major Construction Budget and the Development Projects Budgets.
CACDC (F20)	This is a fund to account for activities undertaken by the Capitol Area Community Development Corporation, a non-profit corporation that CADA created in FY 15-16
1322 O Street Partnership (F25)	This is a fund to account for activities undertaken by a partnership created by the CACDC for the purpose of securing tax credit funding for the Sonrisa project. This fund is accounted for and reported separately from CADA's financial Statements.
<p>Special Management Funds</p> <ul style="list-style-type: none"> • Somerset Parkside (F36) • Biele Place (F37) • 17th Street Commons (F38) • Fremont/Wilshire (F41) 	Includes three (3) 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. Also includes a special management fund for the Fremont Wilshire buildings, which is not subject to external government agency oversight.
<p>Special Revenue Funds</p> <ul style="list-style-type: none"> • Trust Funds (76) • Dog Park Special Revenue (77) 	Trust funds (76) are used for funds CADA holds in trust for other entities for a specific purpose. Special Revenue funds are to be used to recognize and restrict CADA revenue for a specific purpose.
<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) 	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>Bond Debt Service Funds</p> <ul style="list-style-type: none"> • Series A Tax Exempt 2004 Bond (F65) • Series B Taxable 2004 Bond (F66) • Taxable 2020 (F67) 	Funds established to reflect the remaining balance of bonds issued in July 2004 and December 2020, as well as investment income earned on the reserves and remaining unspent bond proceeds.
<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 (6) 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. 22 - 40

Adopted by the Capitol Area Development Authority

December 16, 2022

**RESOLUTION ADOPTING THE FISCAL YEAR 2022 -2023
MID-YEAR REVISION TO THE GENERAL OPERATIONS BUDGET AND
CAPITAL INVESTMENT PROGRAM (CIP) BUDGETS**

WHEREAS, the FY 2022-2023 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 2022-2023 and were adopted at the June 2022 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 22-23 General Operations Budget to effect a net increase of \$4,067,111. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, and proceeds from the sale of property. 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