



December 1, 2023

TO: CADA Board of Directors

**SUBJECT: December 8, 2023, Board Meeting
AGENDA ITEM 7
FISCAL YEAR 23-24 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 23-24 Annual General Operations Budget and the Capital Investment Program (CIP) Budgets as follows:

- Revise the FY 23-24 General Operations Budget to affect a net increase of \$2,432,100. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, drawdown on reserves and additional interest income on bond proceeds. This revision is proposed to fund increases for CIP budgets and general expense accounts.
- Revise Major Construction CIP Budgets to
 - Increase the FY 21-22 Budget by \$100,000
- Revise Reserves to
 - Decrease the Acquisition Reserve by \$125,648

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 ongoing 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 all necessary budget approvals from CalHFA for 17th Street Commons and 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 \$2,432,100.

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

- An increase of \$2,306,452 from tax increment revenue received either not budgeted for or not utilized in the prior year, made available through the utilization of the available fund balance.
- An increase of \$522,242 from the interest income earned on Bond proceeds held by the City. The adjustment is comprised of \$210,000 which was budgeted but not utilized in the prior year, and \$312,242 in interest income received but not budgeted for. This will be made available through the utilization of available fund balance, similar to tax increment revenue.

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

- An increase of \$80,000 to the Countertops maintenance account for a budget adjustment due to material cost being higher than originally budgeted for.
- An increase of \$140,000 to the Painting maintenance account to allow Maintenance to contract out painting services for projects at CADA's various properties.
- An increase of \$2,176,100 to the Property Acquisition development account for the purchase of the Terraces at 1609 O Street, as approved at the October board meeting. Of this increase, \$825,000 is for the purchase deposit and \$1,350,071 is to budget for the SHRA loan payoff to be made after CADA purchases the property.
- A \$36,000 budget increase to fund creation of a new Community Art Projects account. This budget would allow CADA to re-wrap utility boxes from the last utility box art wrap project that have been damaged. The creation of this new account will also allow staff to have a budget for murals and other types of public art projects CADA would like to participate in and provide.

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 makes 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 22-23 and FY 23-24 Major Construction Budgets. For the FY 21-22 Major Construction budget, the proposed increase of \$100,000, funded through available tax increment, includes the following:

- In the FY 21-22 budget, staff has re-budgeted or re-scheduled projects to allow for additional major improvements to flooring in CADA's units as they turnover. The current budget for these expenditures was insufficient due to the increase in cost of materials, the number of units needing this improvement and the extensive and unanticipated asbestos abatement that frequently needs to be done before the new flooring can be put in place. With the proposed increase of \$100,000 to this budgeted for toxic abatement, staff should be able to continue to improve the units as they become vacant and address necessary asbestos abatement.

Development CIP Budgets: 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.

	Original Budget	Previous Budgeted	Current Proposed	Total Budget	Remaining Proceeds
<u>Funding Sources</u>					
Available Proceeds	30,000,000	(5,400,100)	-	(5,400,100)	24,599,900
<u>Development Expenses</u>					
Courtyard Site 16A - Sonrsia		2,633,100	-	2,633,100	-
O Street Streetscape		1,000,000	-	1,000,000	-
805 R Street	-	1,767,000	-	1,767,000	-
	<u>\$ 30,000,000</u>	<u>\$ 5,400,100</u>	<u>\$ -</u>	<u>\$ 5,400,100</u>	<u>\$ -</u>

General Operations Designated Reserves

For Designated Reserves, the proposed adjustments include the following:

- A decrease of \$125,648 to the Acquisitions Reserve to partially fund the purchase of the Terraces.

Table 1 below presents the proposed adjustments to the projected Designated Reserves and the projected reserve balances as of June 30, 2024.

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

<u>Designated Reserves (General Operation)</u>	<u>Actual</u> <u>6/30/2023</u>	<u>Budget</u> <u>(Adopted)</u>	<u>Midyear Rev</u> <u>(Proposed)</u>	<u>Projected</u> <u>6/30/24</u>
Operations Contingency	\$ 685,144	\$ -	\$ -	685,144
Development Reserve	1,655,485	-	-	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	1,703,000	-	-	1,703,000
Acquisition Reserve	2,632,000	-	(125,648)	2,506,352
Self-Insured Risk Reserve	675,000	-	-	675,000
	<u>\$ 8,754,576</u>	<u>\$ -</u>	<u>\$ (125,648)</u>	<u>\$ 8,628,928</u>
<u>Designated Reserves (Special Management)</u>				
Equipment Replacement Reserve	\$ 664,392	\$ (51,617)	\$ -	\$ 612,775
Operation Reserve - Somerset & Biele	106,629	-	-	106,629
	<u>\$ 771,021</u>	<u>\$ (51,617)</u>	<u>\$ -</u>	<u>\$ 719,404</u>
<u>Designated Reserves (R Street)</u>				
Development Reserve	\$ 924,408	\$ 997,798	\$ -	\$ 1,922,206
Affordable Housing Reserve	1,440,279	336,300	-	1,776,579
	<u>\$ 2,364,687</u>	<u>\$ 1,334,098</u>	<u>\$ -</u>	<u>\$ 3,698,785</u>
<u>Designated Reserve (Bond Interest)</u>				
Development Reserve	\$ 173,706	\$ -	\$ -	\$ 173,706
	<u>\$ 173,706</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,706</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 2023-24 CADA Fund Descriptions
2. Resolution 23-49

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.
Special Management Funds <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 the Department of Housing & Community Development (HCD) for Funds 36 & 37 and the 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.
Special Revenue Funds <ul style="list-style-type: none"> • Trust Funds (76) • Dog Park Special Revenue (77) 	Trust funds (76) and (77) 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.
Tax Increment Funds <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.
Bond Debt Service Funds <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.
Tax Allocation Bond Proceeds Funds <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. 23 - 49

Adopted by the Capitol Area Development Authority

December 8, 2023

**RESOLUTION ADOPTING THE FISCAL YEAR 2023 -2024
MID-YEAR REVISION TO THE GENERAL OPERATIONS BUDGET AND
CAPITAL INVESTMENT PROGRAM (CIP) BUDGETS**

WHEREAS, the FY 2023-2024 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 2023-2024 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 2023-2024 General Operations Budget to affect a net increase of \$2,432,100. This net increase is the result of tax increment received but not utilized in the prior year, adjustments to revenue, drawdown on reserves and additional interest income on bond proceeds. This revision is proposed to fund increases for CIP budgets and general expense accounts.
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Ann Bailey, Chair

ATTEST:

Tara Gandara
Secretary to the Board of Directors