

Staff Paper #11:

RDA Funding

POLICY PAPER

MODESTO REDEVELOPMENT AGENCY

DATE: APRIL 2004

POLICY ISSUES:

- a. Should the City continue its current practice of devoting a portion of the annual Transient Occupancy Tax and the Sales Tax from the Shops at Lincoln School to the Modesto Redevelopment Agency (RDA) as annual Project revenue?
- b. Should these transfers be considered loans?
- c. Should the Redevelopment Agency undertake an update of its master plan and EIR?

PURPOSE OF FUNDS TRANSFER:

The transfer of Transient Occupancy Tax (TOT) and Sales Tax to the RDA provides two additional, on-going sources of annual revenue to the RDA. There are two primary uses for these annual revenue streams: (1) Debt service; (2) Funding for additional projects

HISTORY OF FUNDS TRANSFER:

Sales Tax from the Shops at Lincoln School: The “Shops at Lincoln School” was one of the first projects to be completed using Modesto RDA funds. The Sales Tax from this shopping center is intended to fund some of the debt service of the Original Project Area, including the Modesto Centre Plaza and 9th Street Garage construction. This debt service schedule is expected to be defeased by 2024. The Tenth Street Place debt service schedule is expected to be defeased by 2034.

Transient Occupancy Tax: The TOT is set forth in Modesto Municipal Code §8-2.603 and is imposed at the current rate of nine percent (9%) of the hotel rent. The TOT is collected by the City of Modesto. A portion of the TOT (as set forth below) is intended to fund some of the debt service of the Original Project Area and the Amended Project Area. In addition, this funding is intended for future projects.

In 1985, the TOT rate was 6%. Beginning in 1985, the TOT was adjusted as follows:

1. TOT 3% increase. On March 19, 1985, the City increased the TOT a total of 3% over 3 years (Ord. 2322-C.S.):
 - a. July 1985 – 7%
 - b. July 1986 – 8%
 - c. July 1987 – 9%
2. Distribution of the 3% increase: In subsequent actions, the City approved the distribution of the 3% TOT increase as follows:
 - a. 1.2% of **3% Increase** = 13.33% of all TOT – To Convention and Visitors Bureau
 - b. 1.8% of **3% Increase** = 20% of all remaining TOT (Excluding Doubletree) – To RDA for revenue to repay debt and initiate projects

Transfers to RDA from City: FY 03-04

100%	of sales tax from Shops at Lincoln School	\$ 80,000 (Est.)
100%	of TOT generated by Doubletree Hotel	\$500,000 (Est.)
20%	of all TOT in Modesto (excl. Doubletree)	<u>\$336,000 (Est.)</u>
	Total:	\$916,000

Estimated Transfers to RDA from City: FY 04-05: \$949,000

IMPACTS OF DISCONTINUING FUNDS TRANSFER:

We now have the makings of a vibrant and economically strong downtown, clearly on its way to being one of the finest in the Central Valley. Redevelopment was ...and is an important and essential tool for revitalizing downtown Modesto. It's important that the City stay on track with its commitment and investment strategy, so as not to turn back the clock.

The RDA is currently suffering from a severe lack of funding for future projects. This lack of funding is due in large part to the substantial investment of RDA tax increment into two major downtown projects, the Doubletree Hotel/Centre Plaza and Tenth Street Place. These projects are critical to the success of Downtown Modesto. However, these investments also left little funding for additional projects or for staff to manage the Agency. Most staff resources over the past few years have been for:

1. Administration of debt service
2. Management of garages and retail spaces included in the development projects
3. Development of office projects and affordable housing in the downtown
4. Development of Kansas-Woodland Business Park, including brownfield remediation

Since the late 1980's, the City has allocated a portion of the TOT and Lincoln School Sales Tax to the Agency. Currently this equates to about just under \$1 million annually. Because of the heavy debt service load, the RDA has required additional General Fund assistance in the form of loans from the City to maintain fund balances.

Recent increases in Tax Increment funding will eliminate the need for the General Fund loans, but the TOT and Sales Tax allocations are required to meet RDA debt obligations and to provide funding for future projects. We expect the RDA to break even within the next 18 months, despite State RDA ERAF takeaways. Once there is available working capital, the RDA can again begin applying funding for the following: (1) Improve administrative capabilities; (2) Complete an update of its Master plan and EIR for future planning and projects.

The RDA is at a crossroads. We have enjoyed significant success in the past, but future success depends on increased funding. Blight elimination via partnerships with the private sector is the lifeblood of the RDA. Should the City of Modesto reduce or eliminate the TOT and Sales Tax funding, we run the risk of continued deficiencies in the RDA's administrative capabilities and little, if any, investment in the Project Area. The issue regarding administrative deficiencies is of critical importance given the Agency's difficulties in recent years of complying with State reporting requirements. Though none of these deficiencies have been significant enough to be considered a major violation, continued problems could result in penalties and/or sanctions levied by the State. It is imperative that the Agency allocates sufficient resources to support current efforts to improve the organization's administrative capabilities.

Redevelopment has been an important and successful tool in renovating many cities. In Modesto, we think that it has been the main reason for attracting new investors into the downtown and for creating alliances between the City and the County to provide better services for our citizens in a central location. Also, we have added entertainment destinations in the downtown along with restaurants and new retail stores. All in all, redevelopment is performing its job well here in Modesto. Beyond the projects now under construction, housing is another objective for the Redevelopment Agency and we expect to see new housing projects starting within the next year or so. We are pleased with the results that have been achieved to date by using the redevelopment process and are looking forward to more partnerships and more improvements in the future.

To maintain the RDA as a key economic development tool, the City and RDA should agree upon a Work Program outlining the following: (1) Future project priorities; (2) Future project funding (3) Debt service schedule to repay the General Fund loans. This Work Program will allow the RDA to develop a program that retains sufficient funding to achieve project objectives while still servicing the City's debt requirements.

SHOULD THE TRANSFERS BE CONSIDERED LOANS?

It is not uncommon for Redevelopment Agencies to designate a portion of the non-property tax revenues generated within the Project Area to the RDA. The justification for this approach is that, just as the increase in property tax is attributable to the positive activities of the RDA, it can be reasoned that the increase in other revenues is also a direct result of RDA investment in the Project Area. Without the RDA, there would be little improvement in the overall economic health of the Area and, therefore, there would not be an increase in property tax and other governmental revenues.

Whether the TOT and Sales Tax should be treated as a loan is a policy decision of the City Council and Agency Board. As with any debt, terms must be established for repayment of the principal and any interest, if desired. Currently, the City/Agency have an agreement on the rate of interest for loans provided to the Agency from the City's General Fund. However, a repayment schedule has not yet been established. Prior to making such a policy decision, it would be prudent to conduct a detailed analysis of the RDA's long-term revenue and expenditure Performance. This analysis would assist the decision-makers in determining what the expenditure priorities are for the City and Agency and allow for a logical allocation of revenues based on these priorities. The Agency has recently retained the services of Keyser-Marston to conduct a detailed cash flow analysis of the RDA's budget. This information will be very useful in determining if the current TOT and Sales Tax transfers should be considered a loan to the Agency from the City General Fund. The analysis should be completed in the next 45 days, at which time we will schedule the matter for Agency review.

IMPACT OF NOT UPDATING THE RDA MASTER PLAN AND EIR

As discussed above, redevelopment is an essential tool for revitalizing the entire RDA Project Area, as well as the downtown. It is in the long-term interest of Modesto to use its redevelopment authority to improve the quality of life and business throughout the Project Area. As a continuing part of this long-term strategy, the RDA staff -- in consultation with the RDA General Counsel -- has determined that both the RDA EIR and Master Plan should be updated. Considering the dramatic changes that have taken place since the early 1990's, both documents are out of date and must be revised to reflect the current conditions and to ensure legal compliance.

The purpose of the Master Plan is to update the vision and plan for development for the Project Area. An additional component of the Master Plan is preparation of a *Safety Campus Concept*. The Campus Concept is intended to provide an expanded area for the future needs of both the Police and Fire Departments within the Downtown. The Master Plan, EIR will be a Program EIR, as defined by Section 15168 of the CEQA Guidelines, and it will be prepared at a general level of detail. It will also be designed for use by subsequent private development so they may proceed without subsequent, supplemental EIRs unless there are new significant impacts.

Agency staff, working with the members of the Citizens Redevelopment Advisory Commission, the Agency members and the public will accomplish the following tasks as part of the Master Plan update.

- a. Revisit the vision statement, the Master Plan and create updated goals for the Project Area
- b. Build upon the City Council's Strategic Plan goals for the Downtown
- c. Identify strategic directions for the future of the Modesto Redevelopment Area
- d. Analyze the existing land use and development patterns within the Redevelopment Project Area
- e. Use a market analysis and extensive public input to develop alternative development strategies

- for key opportunity sites in the Redevelopment Area
- f. Integrate design, planning and implementation methods into an improvement plan and provide a “toolkit” of improvement strategies for the Redevelopment Area, such as land use suggestions for the RDA, zoning recommendations, parking strategies, and design and development standards
 - g. Provide public and private financing strategies (i.e. what funds are available, and funding sources)
 - h. Based on the public workshop results, up to three different alternative site layouts for the Campus will be designed. Each layout will be accompanied by a land use table depicting general sizes of facilities
 - i. These plans will not show architectural details but will illustrate the conceptual locations and areas required including access and parking.
 - j. Following review of the Alternatives, EDAW will generate a Campus Concept Plan that combines the best ideas and thinking of all parties. This Plan will be illustrative and will include a land use table. A three dimensional sketch of the campus will be prepared that conveys the character of the campus.

Funds are budgeted in the FY 2003-04 budget in the amount of **\$482,619** in the following accounts:

<u>Redevelopment Agency:</u>		<u>\$405,365</u>
9080-140-1493-0235	RDA Master Plan	\$285,365
9080-140-K871	CIP - Update RDA EIR	\$120,000

<u>Fire:</u>		
0100-0180-1300-6040	Fire Station #1- Seismic Imprv	<u>\$77,254</u>

Fire funding is a re-allocation of funds budgeted for the seismic improvements to Fire Station #1. These improvements have been delayed to perform a cost-benefit analysis between the seismic improvements and the razing and reconstruction of a Fire Station / Fire Administration building, including future needs identified in the Capital Facilities Fee update of 2003.

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