office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

107-2262019-002

Agenda Item **No. 5(d)**
Meeting of May 7, 2019

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Nadia Sesay, Executive Director

SUBJECT: Approving a Budget for the period July 1, 2019 through June 30, 2020 and authorizing the Executive Director to submit the Budget and Interim Budget to the Mayor's Office and the Board of Supervisors

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EXECUTIVE SUMMARY

The Commission reviewed the draft proposed budget for Fiscal Year 19-20 at an informational workshop on April 16, 2019. On May 7, 2019, the Commission will take action on the final proposed budget, which is attached to the budget Resolution and is substantially similar to the draft proposed budget. The changes to the draft proposed budget result in a 0.1% decrease in the FY19-20 budget from the proposed budget amount of $641.1 million at the workshop to the final proposed budget amount of $640.7 million.

The budget Resolution provides for the approval of the budget and authorizes the Executive Director to submit the approved budget to the Mayor and the Board of Supervisors for their review. The Resolution also authorizes the Executive Director to submit the interim budget, which is based on the annual budget submitted to the Board of Supervisors, covers the first month of the fiscal year. By convention, the interim budget is in effect from July 1, 2019, until the full Board of Supervisors finally passes the budget on July 2019.

Staff recommends approval of the proposed budget for the period of July 1, 2019 through June 30, 2020 and recommends authorizing the Executive Director to submit the budget and interim budget to the Mayor's Office and the Board of Supervisors.

DISCUSSION

The Commission reviewed the draft proposed budget for Fiscal Year ("FY") 19-20 at an informational workshop on April 16, 2019. On May 7, 2019, the Commission will review the final proposed budget, which is attached to the budget Resolution. The final proposed budget is substantially similar to the draft proposed budget. As discussed in the informational workshop, the budget document describes the activities that OCII will undertake in FY 19-20 through narrative descriptions, workplans, and various tables.

Budget Update

The final proposed budget is substantially similar to the draft proposed budget presented at the workshop on April 16, 2019. The changes are due to a reduction in developer deposits in Transbay to reflect the updated cash balances report and a reallocation of funds due to a reduction in Folsom Streetscape costs. Together, these changes result in an overall decrease of $0.4 million or 0.1% from $641.1 million at the workshop to $640.7 million. These changes are explained below. An adjustment is due to policy or program changes, and technical adjustments reflect more up-to-date financial information or to correct errors.

Adjustment #1

Following the workshop, the Department of Public Works informed OCII that a planned amendment to increase the funds allocated to Folsom Streetscape by $3.4 million is no longer necessary. As OCII intended to fund the planned amendment with bond proceeds and OCII prioritizes spending bonds before other sources, this change triggered a funding reallocation from fees to bonds in Under-ramp Park and Transbay Park.

Technical Adjustments #1, #2, and #3

After the workshop, OCII made several technical adjustments to reflect more up-to-date information or correct oversights.

- Technical Adjustment #1 is due to a reduction in TBY developer deposit for Blocks 5 and 9 by $0.4M to reflect an updated cash balances report.
- Technical Adjustment #2 reflects a reclassification of $0.7M in HPS/CP Infrastructure Pledge from Prior Period Authority ("PPA") to Fund Balance.
- Technical Adjustment #3 reflects an increase in Fund Balance due to reclassification of $1.4M in Mission Bay housing pledge from PPA to Fund Balance.

Together these adjustments result in the changes to sources and uses shown below.

Table 1: Changes in Sources from FY19-20 Budget Workshop to FY19-20 Budget Action, Millions

	FY19-20 Workshop Proposed	FY19-20 Action Proposed	Difference	% Change	Justification
Sources					
Property Tax	$ 158.0	$ 158.0	$ -	-	
New Bonds	$ 40.7	$ 40.7	$ -	-	
Developer Payments	$ 20.2	$ 20.2	$ -	-	
Other	$ 15.8	$ 15.8	$ -	-	
Fund Balance	$ 184.6	$ 182.6	$ (2.0)	-1.1%	(1) Adjustment #1: Reallocation of $2.3M from Fund Balance to PPA, triggered by reduction in Folsom Streetscape costs. (2) Technical Adjustment #1: Reduction in TBY developer deposit for Blocks 5 and 9 by $0.4M to reflected updated cash balances report. (3) Technical Adjustment #2: Reclassification of $0.7M HPS/CP Infrastructure Pledge PPA to Fund Balance.
Prior Period Authority	$ 221.8	$ 223.4	$ 1.6	0.7%	(1) Adjustment #1: Reallocation of $2.3M from Fund Balance to PPA, triggered by reduction in Folsom Streetscape costs. (2) Technical Adjustment #2: Reclassification of $0.7M HPS/CP infrastructure pledge from PPA to Fund Balance.
Total Sources	**$ 641.1**	**$ 640.7**	$ (0.4)	-0.1%	

Table 2: Changes in Uses from FY19-20 Budget Workshop to FY19-20 Budget Action, Millions

	FY19-20 Workshop Proposed	FY19-20 Action Proposed	Difference	% Change	Justification
Uses					
Operations	$ 36.1	$ 36.1	$ 0.0	0.0%	
Affordable Housing Loans	$ 98.9	$ 98.9	$ -	0.0%	
Development Infrastructure	$ 152.5	$ 149.1	$ (3.4)	-2.2%	Adjustment #1: Reduced Folsom Streetscape costs.
Pass-through to TJPA	$ 8.6	$ 8.6	$ -	0.0%	
Debt Service - OCII TAB Bonds	$ 101.9	$ 101.9	$ -	0.0%	
Public Art	$ 1.1	$ 1.1	$ -	0.0%	
Other Debt	$ 7.6	$ 7.6	$ -	0.0%	
Fund Balance - Housing	$ 112.8	$ 114.2	$ 1.4	1.3%	Technical Adjustment #3: Reallocation of $1.4M in MB PPA to Fund Balance.
Fund Balance - Non-Housing	$ 1.7	$ 5.1	$ 3.4	195.3%	Adjustment #1: Increase in fund balance due to reduced Folsom Streetscape costs.
Prior Period Authority - Housing	$ 68.8	$ 67.4	$ (1.4)	-2.0%	Technical Adjustment #3: Reallocation of $1.4M in MB PPA to Fund Balance.
Prior Period Authority - Non-Housing	$ 50.9	$ 50.6	$ (0.4)	-0.8%	Technical Adjustment #1: Reduction in TBY developer deposit for Blocks 5 and 9 by $0.4M to reflected updated cash balances report.
Total Uses	**$ 641.1**	**$ 640.7**	**$ (0.4)**	**-0.1%**	

Year Over Year Comparison

As shown in Table 3, the proposed FY19-20 budget of $640.7 million represents a decrease of $104.3 million from the FY18-19 budget of $745.0 million. Of the total proposed budget of $640.7 million, $522.7 million in uses is new budget authority and $118.0 million is PPA carried forward from prior fiscal years, including affordable housing loans awarded but not drawn down and multi-year construction budgets.

Year-over-year ("YOY") changes to current year revenue sources compared to FY18-19 are primarily due to an increase in pledged property tax and fund balance. Fund balance reflects funds received in previous years that are not committed in FY19-20 due to project timing or funding restrictions. These increases are offset by a decrease in new bonds due to smaller planned issuances in FY19-20 relative to FY18-19 and a decrease in PPA due to spending down on existing housing loans.

YOY changes to current year uses compared to FY18-19 are primarily due to a decrease in affordable housing loans in FY19-20 relative to FY18-19. In FY18-19, OCII planned to enter into nine affordable housing loans. In FY19-20, OCII plans to enter into six loans, as some projects have been postponed due to delays in the infrastructure delivery in Hunters Point Shipyard/Candlestick Point. FY19-20 uses have also decreased due to the transfer of South Beach Harbor and reductions in operational costs based on need.

These decreases in current year uses are offset by increases in development infrastructure reimbursements in Mission Bay and fund balance in Mission Bay and Transbay. Increases in fund balance are due to receipt of fees that cannot be used in the current year due to funding restrictions. These funds will be used in future years.

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Table 3: Proposed FY19-20 Budget Compared to FY18-19 Budget, *Millions**

	FY18-19 Budgeted	FY19-20 Proposed	YOY Difference
Sources			
Property Tax	$ 134.8	$ 158.0	$ 23.2
New Bonds	$ 143.4	$ 40.7	$ (102.7)
Developer Payments	$ 23.5	$ 20.2	$ (3.3)
Other	$ 15.8	$ 15.8	$ (0.0)
Fund Balance	$ 98.3	$ 182.6	$ 84.3
Prior Period Authority	$ 329.2	$ 223.4	$ (105.8)
Total Sources	**$ 745.0**	**$ 640.7**	**$ (104.3)**
Uses			
Uses - Operations			
Operational Salaries and Benefits	$ 8.6	$ 9.3	$ 0.7
Affordable Housing Services	$ 1.2	$ 1.8	$ 0.6
Rent	$ 0.6	$ 0.7	$ 0.1
Retiree Health and Pension Costs	$ 3.5	$ 3.9	$ 0.5
Auditing & Accounting Services	$ 0.6	$ 0.2	$ (0.4)
Legal Services	$ 1.4	$ 1.4	$ 0.0
Planning & Infrastructure Rvw	$ 9.1	$ 5.4	$ (3.7)
Asset Management	$ 0.2	$ 0.2	$ (0.0)
Workforce Development Services	$ 0.5	$ 0.4	$ (0.1)
Other Professional Services	$ 5.6	$ 3.6	$ (2.0)
Grants to Community-Based Organizations	$ 0.5	$ 1.7	$ 1.2
Payments to other Public Agencies	$ 10.4	$ 6.3	$ (4.1)
Other Current Expenses	$ 1.0	$ 1.1	$ 0.1
Subtotal CY Uses - Operations	**$ 43.2**	**$ 36.1**	**$ (7.1)**
Uses - Non-Operations			
Affordable Housing Loans	$ 220.3	$98.9	$ (121.4)
Development Infrastructure	$ 120.9	$149.1	$ 28.2
Pass-through to TJPA	$ 5.5	$8.6	$ 3.2
Debt Service - OCII TAB Bonds	$ 109.8	$101.9	$ (7.9)
Public Art		$1.1	$ 1.1
Other Debt	$ 29.7	$7.6	$ (22.1)
Fund Balance - Housing	$ 70.1	$114.2	$ 44.1
Fund Balance - Non-Housing	$ 11.1	$5.1	$ (6.0)
Subtotal CY Uses - Non-Operations	**$ 567.4**	**$486.6**	**$ (80.8)**
Prior Period Authority - Housing	$ 63.7	$67.4	$ 3.7
Prior Period Authority - Non-Housing	$ 70.7	$50.6	$ (20.1)
Subtotal CY Prior Period Authority	**$ 134.4**	**$118.0**	**$ (16.4)**
Total Budget Uses	**$ 745.0**	**$640.7**	**$ (104.3)**
Sources vs. Uses	$ -	$ -	$ -

**Dollar amounts will be slightly off due to rounding*.

Summary

As shown in Table 4 below, OCII will expend $498.7 million on direct program spending: $286.4 million on affordable housing, $209.6 million on infrastructure and non-housing, and $2.7 million on community development and workforce. OCII will expend the remaining $141.9 million of the proposed FY19-20 budget on indirect program spending. Table 4 demonstrates that OCII expends the majority of its budget on direct expenditures for affordable housing and infrastructure (44.7 percent and 32.7 percent respectively).

Table 4: FY19-20 Sources by Uses, Programmatic Summary, *Millions**

Uses		Total	*Percent*
Direct Program Spending			
Affordable Housing	$	**286.4**	*44.7%*
Infrastructure & Other Non-Housing	$	**209.6**	*32.7%*
Comm Dev & Workforce	$	**2.7**	*0.4%*
Direct Programmatic Subtotal	$	**498.7**	*77.8%*
Indirect Program Spending			
Asset Management	$	**4.7**	*0.7%*
Project Mgmt & Operations	$	**18.7**	*2.9%*
Debt Service	$	**109.5**	*17.1%*
Pass-through to TJPA	$	**8.6**	*1.3%*
Other	$	**0.4**	*0.1%*
Indirect Programmatic SubTotal	$	**141.9**	*22.2%*
Total	$	**640.7**	*100.0%*

**Dollar amounts will be slightly off due to rounding.*

Note: Cost of Issuance and debt management costs are programmatic costs.

Table 5 below shows the total proposed FY19-20 budget of $640.7 million by project area and cost center. The column headers describe OCII's four major active project areas: Hunters Point Shipyard / Candlestick Point ("HPS/CP"), Mission Bay North ("MBN"), Mission Bay South ("MBS"), and Transbay ("TBY"), as well as Operations, Debt Service, and Other. Table 5 integrates the proposed budget for affordable housing into the appropriate project area, according to each project's location.

Table 5: Proposed FY19-20 Budget by Project Area/Cost Center, *Millions**

	Operations	Debt	HPS / CP	MBN	MBS	TBY	Other	Total
Sources								
Property Tax Increment - TAB Debt Service	$ -	$ 74.6	$ -	$ -	$ -	$ -	$ -	$ 74.6
Property Tax Increment - Debt Portfolio	$ -	$ 2.3	$ -	$ -	$ -	$ -	$ -	$ 2.3
Property Tax Increment - Mission Bay	$ -	$ 27.3	$ -	$ 9.1	$ 20.6	$ -	$ -	$ 57.0
Property Tax Increment - HPS2/CP	$ -	$ -	$ 0.4	$ -	$ -	$ -	$ -	$ 0.4
Property Tax Increment - State Owned TBY	$ -	$ -	$ -	$ -	$ -	$ 13.7	$ -	$ 13.7
Property Tax Increment - Other	$ 4.4	$ -	$ 0.7	$ -	$ -	$ 0.2	$ 0.3	$ 5.6
Property Tax Increment - ACA	$ 4.4	$ -	$ -	$ -	$ -	$ -	$ -	$ 4.4
Subtotal CY Property Tax Increment	**$ 8.8**	**$ 104.2**	**$ 1.1**	**$ 9.1**	**$ 20.6**	**$ 13.9**	**$ 0.3**	**$ 158.0**
New Bonds - Housing	$ -	$ 0.6	$ 24.8	$ -	$ -	$ -	$ -	$ 25.4
New Bonds - Infra	$ -	$ 0.3	$ 15.0	$ -	$ -	$ -	$ -	$ 15.3
Subtotal CY New Bonds	**$ -**	**$ 0.9**	**$ 39.8**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 40.7**
Developer Payments	$ -	$ -	$ 11.6	$ 0.0	$ 6.0	$ 2.4	$ 0.1	$ 20.2
Subtotal CY Developer Payments	**$ -**	**$ -**	**$ 11.6**	**$ 0.0**	**$ 6.0**	**$ 2.4**	**$ 0.1**	**$ 20.2**
Rent & Lease Revenue	$ -	$ 0.5	$ 0.4	$ -	$ -	$ -	$ 0.0	$ 0.9
US Navy Cooperative Agreement	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loan Repayments	$ -	$ -	$ -	$ -	$ -	$ -	$ 5.9	$ 5.9
Payments from Other Gov Entities	$ 0.1	$ -	$ 4.3	$ -	$ -	$ -	$ -	$ 4.4
Hotel Tax	$ -	$ 4.5	$ -	$ -	$ -	$ -	$ -	$ 4.5
Subtotal CY Other	**$ 0.1**	**$ 5.1**	**$ 4.7**	**$ -**	**$ -**	**$ -**	**$ 5.9**	**$ 15.8**
Fund Balance - Housing	$ -	$ -	$ 25.4	$ -	$ 44.0	$ 76.6	$ 24.8	$ 170.8
Fund Balance - Non-Housing	$ 0.1	$ -	$ 2.9	$ -	$ 1.1	$ 7.3	$ 0.3	$ 11.7
Subtotal CY Budget Sources	**$ 0.1**	**$ -**	**$ 28.3**	**$ -**	**$ 45.1**	**$ 84.0**	**$ 25.1**	**$ 182.6**
Prior Period Authority - Housing	$ -	$ -	$ 11.8	$ -	$ 54.5	$ 0.9	$ 0.2	$ 67.4
Prior Period Authority - Non-Housing	$ -	$ -	$ -	$ 24.1	$ 82.3	$ 32.8	$ 16.8	$ 156.0
Subtotal CY Sources - Prior Period Authority	**$ -**	**$ -**	**$ 11.8**	**$ 24.1**	**$ 136.8**	**$ 33.8**	**$ 17.0**	**$ 223.4**
Total CY Sources	**$ 9.1**	**$ 110.1**	**$ 97.3**	**$ 33.2**	**$ 208.5**	**$ 134.1**	**$ 48.4**	**$ 640.7**
Uses								
Uses - Operations								
Allocated Staff & Operating Expenses	$ (9.7)	$ 0.6	$ 3.6	$ 0.2	$ 2.3	$ 2.7	$ 0.4	$ 0.0
Operational Salaries and Benefits	$ 9.3	$ -	$ -	$ -	$ -	$ -	$ -	$ 9.3
Affordable Housing Services	$ 1.8	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.8
Rent	$ 0.7	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.7
Retiree Health and Pension Costs	$ 3.9	$ -	$ -	$ -	$ -	$ -	$ -	$ 3.9
Auditing & Accounting Services	$ 0.2	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.2
Legal Services	$ 0.3	$ -	$ 1.0	$ -	$ -	$ 0.0	$ -	$ 1.4
Planning & Infrastructure Rvw	$ 0.0	$ -	$ 5.4	$ -	$ -	$ -	$ -	$ 5.4
Real Estate Development Services	$ 0.2	$ -	$ 0.0	$ -	$ -	$ -	$ 0.0	$ 0.2
Workforce Development Services	$ 0.1	$ -	$ 0.1	$ -	$ -	$ 0.1	$ -	$ 0.4
Other Professional Services	$ 0.9	$ -	$ 1.6	$ -	$ 1.0	$ 0.1	$ -	$ 3.6
Grants to Community-Based Organizations	$ -	$ -	$ 1.7	$ -	$ -	$ -	$ -	$ 1.7
Payments to Other Public Agencies	$ -	$ -	$ 0.4	$ -	$ -	$ -	$ 5.9	$ 6.3
Other Current Expenses	$ 1.1	$ -	$ -	$ -	$ -	$ -	$ -	$ 1.1
Subtotal CY Uses - Operations	**$ 8.9**	**$ 0.6**	**$ 13.8**	**$ 0.2**	**$ 3.3**	**$ 3.0**	**$ 6.3**	**$ 36.1**
Uses - Non-Operations								
Affordable Housing Loans	$ -	$ -	$ 49.5	$ -	$ 42.4	$ 7.0	$ -	$ 98.9
Development Infrastructure	$ -	$ -	$ 15.3	$ 30.6	$ 95.4	$ -	$ 7.8	$ 149.1
Pass-through to TJPA	$ -	$ -	$ -	$ -	$ -	$ 8.6	$ -	$ 8.6
Debt Service - OCII TAB Bonds	$ -	$ 101.9	$ -	$ -	$ -	$ -	$ -	$ 101.9
Public Art	$ -	$ -	$ -	$ -	$ 1.1	$ -	$ -	$ 1.1
Other Debt	$ -	$ 7.6	$ -	$ -	$ -	$ -	$ -	$ 7.6
Fund Balance - Housing	$ -	$ -	$ 0.8	$ 2.3	$ 11.8	$ 74.4	$ 24.8	$ 114.2
Fund Balance - Non-Housing	$ -	$ -	$ 1.4	$ -	$ -	$ 3.4	$ 0.3	$ 5.1
Subtotal CY Uses - Non-Operations	**$ -**	**$ 109.5**	**$ 67.0**	**$ 32.9**	**$ 150.7**	**$ 93.5**	**$ 32.9**	**$ 486.6**
Prior Period Authority - Housing	$ -	$ -	$ 11.8	$ -	$ 54.5	$ 0.9	$ 0.2	$ 67.4
Prior Period Authority - Non-Housing	$ 0.1	$ -	$ 4.7	$ -	$ -	$ 36.7	$ 9.0	$ 50.6
Subtotal CY Uses - Prior Period Authority	**$ 0.1**	**$ -**	**$ 16.5**	**$ -**	**$ 54.5**	**$ 37.7**	**$ 9.2**	**$ 118.0**
Total Budget Uses	**$ 9.1**	**$ 110.1**	**$ 97.3**	**$ 33.2**	**$ 208.5**	**$ 134.1**	**$ 48.4**	**$ 640.7**
Sources vs. Uses	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

**Dollar amounts will be slightly off due to rounding.*

As shown in Table 5, Mission Bay South expenditures are the largest cost center in OCII's budget, reflecting the project area's maturity relative to other project areas. These expenditures are primarily for affordable housing loans and infrastructure reimbursements. Transbay is the second largest cost center, reflecting continued construction of the parks and infrastructure in the project area. Debt reflects the third largest cost center as OCII continues to manage a portfolio of over 20 bonds.

NEXT STEPS

Upon the Commission's approval, staff will submit the approved budget to the Mayor's Budget Office for review. The Mayor's Budget Office will submit the budget for approval to the Board of Supervisors in July 2019. Staff will inform the Commission of any material changes to the budget required by the Mayor or Board of Supervisors.

As the full Board of Supervisors will not consider the budget until July 2019, which is after the start of the fiscal year, the Board routinely passes an interim budget based on OCII's annual budget submission. The interim budget is based on the Proposed Budget and covers the first month of the fiscal year. The Resolution authorizes the Executive Director to submit this interim budget to the Board of Supervisors for its review. The interim budget is in place until the Board of Supervisors finally passes the annual budget in July.

(Originated by Mina Yu, Financial and Reporting Analyst)

Nadia Sesay
Executive Director