SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OBLIGATIONS AND RISKS TO THE CITY

Effective February 1, 2012, all redevelopment agencies in the State of California were dissolved pursuant to AB X1 26. As part of the legislation, Successor Agencies are charged with winding down operations and overseeing the dissolution process in an orderly manner. On January 24, 2012, the City Council adopted Resolution No. 76128 documenting its decision to serve as the Successor Agency to the former Redevelopment Agency ("Successor Agency"), a separate public entity. Over the years, the City of San José made a number of loans to the former Redevelopment Agency for specified eligible redevelopment purposes, including loans made to pay debt service and other long-standing obligations. With narrow exceptions, loans between cities and their redevelopment agencies were invalidated by AB X1 26. However, with the approval of AB 1484 in June 2012, loans such as those outlined below may be deemed an enforceable obligation contingent upon 1) the issuance of a Notice of Completion finding by the State Department of Finance (DOF), and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. The passage of California Senate Bill 107 on September 22, 2015 narrowed the scope of loans eligible to be reinstated. If a loan is reinstated, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

Outlined below is a summary of the outstanding loans from the City to the former Redevelopment Agency, which were in effect as of February 1, 2012, upon the dissolution of the former Redevelopment Agency and which loans were subsequently reinstated by the Oversight Board pursuant to the Dissolution Law and approved by DOF. Dissolution law provides that the maximum amount authorized for repayment of reinstated loans is fifty percent (50%) of the increase in the amount of property tax revenue distributed to the taxing entities in the 2012-2013 base year and the amount distributed to the taxing entities in the applicable fiscal year of repayment. Since the 2018-2019 fiscal year will be the first year that the taxing entities will receive a distribution from property tax revenue, repayment of the reinstated loans will commence in fiscal year 2019-2020. It is anticipated there will be sufficient property tax increment revenue in 2018-2019 to repay the entire amount of the outstanding loans in 2019-2020. The Dissolution law also requires that twenty percent (20%) of any additional loan repayments to the City shall be transferred to the Low and Moderate Income Housing Fund (LMIHF).

SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OBLIGATIONS AND RISKS TO THE CITY

Lending Fund	Outstanding Obligation (March 31, 2018)	Loan Description and Terms	Funding Source Backup Obligation		
			General Fund	Other Funds	Total All Funds
Supplemental Educational Revenue Augmentation Fund Loans					
Low and Moderate Income Housing Fund (443)	$15,464,825	The Low and Moderate Income Housing Fund and other City funds loaned funds to the former San José Redevelopment Agency (Agency) to enable the former Agency to make the State mandated payments of $62.0 million and $12.8 million to the Supplemental Educational Revenue Augmentation Fund (SERAF) on May 10, 2010 and May 10, 2011, respectively. Per the Loan Agreement by and among the City, the City of San José Financing Authority, and the former Agency dated May 6, 2010, the Successor Agency was required to repay the SERAF Loan as follows: i) $40.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015; ii) $12.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015; and iii) $12.8 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2016. Per Successor Agency Oversight Board action, which became effective on May 26, 2016, the loan for $12.8 million was reinstated along with the approval of a repayment plan. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was July 1, 2011. Per a Successor Agency Oversight Board action, which became effective on May 26, 2016, the loans for $40.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015 and $12.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015 (issuance of commercial paper) were not reinstated, and the outstanding obligations were removed from the City's	$0	$15,464,825	$15,464,825

SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OBLIGATIONS AND RISKS TO THE CITY

Lending Fund	Outstanding Obligation (March 31, 2018)	Loan Description and Terms	Funding Source Backup Obligation		
			General Fund	Other Funds	Total All Funds
		financial statements as of June 30, 2016. It is important to note the debt issued for the $40 million and $12 million has been identified as an enforceable obligation and is included on the Recognized Obligation Payment Schedule. As such, the annual debt service on the outstanding amount is being paid.			
General Fund (001)	$12,367,123	In 2014-2015, the General Fund paid off the $10.0 million principal plus interest due to the Ice Centre Revenue Fund ($2.0 million), Sewage Treatment Plant Connection Fee Fund ($5.0 million), and Subdivision Park Trust Fund ($3.0 million), shifting the funding source of this portion ($10.0 million) of the SERAF loan between the City and the former Agency. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was July 1, 2010. On May 26, 2016, this loan was reinstated and approved for repayment to the City upon terms set forth in the Dissolution Law.	$12,367,123	$0	$12,367,123
Subtotal	**$27,831,948**		**$12,367,123**	**$15,464,825**	**$27,831,948**
Parking Fund Loans					
General Purpose Parking Fund (533)	$8,959,047	In April 2005, the City and former Agency entered into a Loan Agreement whereby the City loaned the former Agency $6.8 million from the City's Parking Fund, representing approximately two years of debt service the former Agency would be paying on the 4th and San Fernando Street Parking Garage. The loan was requested by the former Agency in response to reductions in its tax increment revenue to "ensure the continuity of Agency projects and essential redevelopment programs." The loan was originally scheduled for repayment in January 2009. In 2007, the loan was amended to defer repayment of the $6.8 million loan until July 31, 2012 and eliminating the accrual of interest after June 30, 2007 if the loan was repaid by July 31, 2012.	$0	$8,959,047	$8,959,047

SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OBLIGATIONS AND RISKS TO THE CITY

Lending Fund	Outstanding Obligation (March 31, 2018)	Loan Description and Terms	Funding Source Backup Obligation		
			General Fund	Other Funds	Total All Funds
		In February 2010, the loan was amended again. The principal payment date was extended to be due on or before June 30, 2015. If payment was made by this date, interest on the $6.8 million would be waived. Payment was not made by that date; therefore, interest is due on the $6.8 million. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was July 1, 2007. Per a Successor Agency Oversight Board action, which became effective on March 28, 2017, the loan for $6.8 million was reinstated along with the approval of a repayment plan.			
Parking Capital Development Fund (556)	$8,864,572	In February 2010, the City Council approved an additional loan to the former Agency for debt service payments on the 4th and San Fernando Street Parking Garage: $1.7 million for the second debt service payment due in 2009-2010, $3.4 million in 2010-2011, and $1.7 million in 2011-2012. An agreement between the City and the Redevelopment Agency called for a full repayment of this $6.7 million loan to the Parking Capital Development Fund on or before June 30, 2015. If payment was made by this date, interest on the $6.7 million would be waived. Payment was not made by that date; therefore, interest is due on the $6.7 million. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was July 1, 2007. Per a Successor Agency Oversight Board action, which became effective on March 28, 2017, the loan for $6.7 million was reinstated along with the approval of a repayment plan.	$0	$8,864,572	$8,864,572
Subtotal	$17,823,619		$0	$17,823,619	$17,823,619
Total	$45,655,567		$12,367,123	$33,288,444	$45,655,567

SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OBLIGATIONS AND RISKS TO THE CITY

Successor Agency Obligations with City Impacts

As part of determining the current financial state of the Successor Agency, the Administration continues to analyze projected future property tax increment revenues. Based on that analysis, it is projected that there will be sufficient property tax increment revenue to pay all of the enforceable obligations in the future. Since the Successor Agency prevailed in litigation against the County of Santa Clara (County) regarding the withholding of the PERS and Water District levies by the County, the resolution of that litigation allowed for the repayment of $12.9 million of City funds advanced to pay for certain Successor Agency enforceable obligations plus $300,000 for accrued interest for a total of $13.2 million.

Although the City is not liable for the debts of the Successor Agency, prior to a bond refunding that took place in 2017, the City was contractually obligated to make payments for the following Successor Agency enforceable obligations: 4th and San Fernando Parking Garage Debt Service, Convention Center Debt Service, and Federal Department of Housing and Urban Development (HUD) Section 108 loan payments. If the Successor Agency was unable to make the loan repayment for the HUD Section 108 loan program to the Federal Department of Housing and Urban Development, Community Development Block Grant (CDBG) funds may be used to cover this payment, which was the case for three quarterly payments in 2017-2018. Per the old bond covenants for the 4th and San Fernando Parking Garage, revenues of both the Successor Agency and the General Purpose Parking Fund were pledged to make the loan repayment for the annual debt service of approximately $3.4 million related to this facility. If the Successor Agency had insufficient revenues to make the payment, the General Purpose Parking Fund was required to cover the payment. Due to the bond refunding and moderate tax increment growth, the Successor Agency has sufficient funds to pay these enforceable obligations into the future and payments are no longer needed from CDBG funds or the General Purpose Parking Fund.

Reimbursement Agreement between the Successor Agency and the City of San José

Beginning in 2012-2013, the City has provided financial support to the Successor Agency as a result of insufficient property tax increment revenues to pay all enforceable obligations. Through the 2012-2013 Reimbursement Agreement and the subsequent Amended and Reinstated Long-Term Reimbursement Agreement (together the "Reimbursement Agreement") between the City and the Successor Agency, "City Advance Amounts" were eligible for either inter-year or intra-year reimbursements. Below are the obligations outlined in the Reimbursement Agreement:

- **City Supported Agency Obligations**: City of San José Financing Authority Revenue Bonds Series 2001A (4th and San Fernando Parking Garage) Debt Service and City of San José Financing Authority Lease Revenue Bonds Series 2001F (Convention Center) Debt Service payments.

- **Administrative Costs** pursuant to an administrative cost budget approved by the Oversight Board, including employee costs (for administrative, professional, technical, financial, and legal staffing), third party contractual services, office equipment and supplies (including staffing from the City Manager's Office, City Clerk's Office, City Attorney's Office, Finance Department, and the Housing Department), and other operational costs related to the general winding down of the former Redevelopment Agency.

However, on September 22, 2015, California Senate Bill 107 was signed into law and amended the Dissolution Law, which now disallows the Successor Agency's ability to reimburse the City for cash advances on an intra-year basis. The outstanding portion of all advances made through 2016-2017 will not be repaid until there is sufficient property tax revenue to pay all other enforceable obligations since obligations to the City are subordinate to all other enforceable obligations. Under SB 107, the City is entitled to interest on the loans at a rate of 3% from the origination date of the loan. Furthermore, the Dissolution Law provides that twenty percent (20%) of any additional loan repayments to the City shall be transferred to the LMIHF. The below table shows the outstanding balances from City loans from fiscal years 2013-2017.

City Financial Support Description	2012-2013 ACTUALS	2013-2014 ACTUALS	2014-2015 ACTUALS	2015-2016 ACTUALS	2016-2017 ACTUALS	2017-2018 ESTIMATE
General Fund						
- Convention Center Debt Service	$10,352,510	$9,960,002	$12,627,600	$9,800,000	$0	$0
- Educational Revenue Augmentation Fund (ERAF) Loan	0	1,615,000	0	0	0	0
- General Fund Subsidy for direct Succesor Agency Administrative Costs	1,649,605	1,229,762	931,690	593,757	569,900	565,000
- City Support Services: City Attorney's Office, City Clerk's Office, City Manager's Office, and Finance Department Staffing (and associated overhead costs)	1,048,033	1,506,789	1,267,224	743,680	806,625	650,000
- Unsecured Enforceable Obligations	341,360	310,236	140,710	151,634	141,245	100,000
- City Hall Rent - 13th floor offices	100,000	100,000	100,000	16,112	16,113	16,112
General Purpose Parking Fund						
- 4th and San Fernando Parking Garage Debt Service	3,362,653	3,362,832	1,681,713	1,681,576	0	0
Low and Moderate Income Housing Asset Fund						
- City Support Services: Housing Department support related to Successor Agency Enforceable Obligations (and associated overhead costs)	121,110	51,380	5,317	0	0	0
Total City Financial Support	$16,975,271	$18,136,001	$16,754,254	$12,986,759	$1,533,883	$1,331,112
SARA Reimbursement	*(11,000,000)*	*(12,902,222)*	*(12,759,251)*	*0*	*0*	*(17,303,000)*
PERS Levy Settlement Payment					*(13,200,000)*	
Outstanding City Subsidy	$5,975,271	$5,233,779	$3,995,003	$12,986,759	($11,666,117)	-$15,971,888
Total All Years						$552,807

At the end of 2017-2018, the Successor Agency will have repaid all outstanding City loans that covered debt, SARA administrative costs, city support, and unsecured enforceable obligations in the amount of $30.5 million (including interest). This does not include a portion of Successor Agency administrative and City support costs for 2017-2018. These costs estimated at $553,000 will be repaid in 2018-2019.

SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OBLIGATIONS AND RISKS TO THE CITY

Using the current level of annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) and the continued ability to reserve RPTTF funds each year for debt service, it is anticipated the Successor Agency will be able to pay all of its debt service going forward without an advance from the City. However, this may change if property tax revenues decrease in the future.

It should be noted that the HUD Section 108 loan, approximately $2.0 million annually paid by the Community Development Block Grant (CDBG) Fund, was not included in the Reimbursement Agreement, per a DOF determination. DOF determined that since CDBG funds are an allowable source of funds for the HUD Section 108 loan repayments and the CDBG funds are security for the payment of the HUD Section 108 loans, the City may not be reimbursed for funds advanced for the purpose of repaying the HUD Section 108 loans.

2018-2019 Proposed Budget City Advance Amount
City Support for the Successor Agency

Description	General Fund	All Funds
General Fund Subsidy for direct Successor Agency Administrative Costs	$0	$0
City Support Services: City Attorney's Office, City Clerk's Office, City Manager's Office, and Finance Department staffing (and associated overhead costs)	1,029,112	1,029,112
City Hall Rent - 13th floor offices	0	0
Total City Support	$1,029,112	$1,029,112

In 2018-2019, property tax increment (i.e. RPTTF) funds are projected such that the Successor Agency will be able to pay all of its enforceable obligations; therefore, it is anticipated that the City will not need to assist in paying Successor Agency administrative costs.

The City will continue to provide administrative support (including office space and staffing from the City Manager's Office, City Clerk's Office, City Attorney's Office, and the Finance Department) to the Successor Agency related to the general winding down of the former Redevelopment Agency. Under Dissolution Law, these administrative costs are treated as an enforceable obligation and will be repaid in 2018-2019 along with other enforceable obligations of the Successor Agency as allowed by tax increment revenue.