

**CITY OF SAN JOSE**  
**2014-2015 PROPOSED OPERATING BUDGET**

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

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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 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) a finding by the State Department of Finance that certain specified audits of the Successor Agency have been completed, and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. If a loan is reinstated pursuant to these provisions of AB 1484, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities. Loans between the Low and Moderate Income Housing Fund and the former Redevelopment Agency, including the Supplemental Educational Revenue Augmentation Fund (SERAF) Loan, are enforceable obligations of the Successor Agency, which must be repaid prior to any other reinstated loans between the City and the Successor Agency. However, the enforceability of certain portions of the SERAF loan repayment by the Successor Agency is currently being questioned by the State Department of Finance. The Administration continues to work through these issues. The current SERAF loan is due and payable beginning in June 2015.

Outlined below are the outstanding loans from the City to the Redevelopment Agency which remained as of February 1, 2012 upon the dissolution of the former Redevelopment Agency. Currently, they remain unenforceable obligations except where otherwise noted. Unenforceable obligations would be required to be paid in full from an alternative funding source should repayment from the Successor Agency not be legal; under that scenario, repayments would require General Fund support.

The Successor Agency continues to operate with a projected insufficiency of funds in 2014-2015. As a result, it is recommended in the 2014-2015 Proposed Budget that the City’s General Fund pay off the \$10.0 million in loans from other City funds that were used to complete a portion of the former Redevelopment Agency’s SERAF obligation. This action would shift the funding source of this portion (\$10 million) of the SERAF loan between the City and the former Redevelopment Agency from the Sewage Treatment Plant Connection Fee Fund (\$5 million), Subdivision Park Trust Fund (\$3 million), and Ice Centre Revenue Fund (\$2 million) to the City’s General Fund. It should be noted that in summer 2014, the Administration is planning to seek Successor Agency Oversight Board approval to reinstate this \$10.0 million portion of the SERAF loan between the City and the Successor Agency as a valid and binding obligation of the Successor Agency so that the General Fund can eventually be repaid.

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Lending Fund	Outstanding Obligation (May 1, 2014)	Loan Description and Terms	Funding Source Backup Obligation		
			General Fund	Other Funds	Total All Funds
<b>Supplemental Educational Revenue Augmentation Fund (SERAF) Loan</b>					
Low and Moderate Income Housing Fund* (443)	\$65,689,780	The Low and Moderate Income Housing Fund and other City funds loaned funding to the former San Jose Redevelopment Agency, (Agency) in order for the former Agency to make the State mandated payments of \$62.0 million and \$12.8 million to the 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 must repay the SERAF Loan as follows:	\$0	\$65,689,780	\$65,689,780
Ice Centre Revenue Fund (432)	\$2,028,954	i) \$52.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015.	\$2,028,954	\$0	\$2,028,954
Sewage Treatment Plant Connection Fee Fund (539)	\$5,072,385	ii) \$13.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2016.	\$5,072,385	\$0	\$5,072,385
Subdivision Park Trust Fund (375)	\$3,043,431	iii) \$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) by June 30, 2015.	\$3,043,431	\$0	\$3,043,431
<b>Subtotal</b>	<b>\$75,834,550</b>		<b>\$10,144,770</b>	<b>\$65,689,780</b>	<b>\$75,834,550</b>

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			General Fund	Other Funds	Total All Funds
<b>Parking Fund Loans</b>					
General Purpose Parking Fund (533)	\$6,800,000	<p>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 Fourth 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.</p> <p>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. If not, interest would accrue from June 30, 2007.</p>	\$0	\$6,800,000	\$6,800,000
Parking Capital Development Fund (556)	\$6,728,294	<p>In February 2010, the City Council approved an additional loan to the former Agency for debt service payments on the Fourth 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 calls for a full repayment of this \$6.7 million loan to the Parking Capital Development Fund in 2015-2016. The loaned amounts to the former Agency for these purposes do not accrue interest.</p>	\$0	\$6,728,294	\$6,728,294
<b>Subtotal</b>	<b>\$13,528,294</b>		<b>\$0</b>	<b>\$13,528,294</b>	<b>\$13,528,294</b>

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			General Fund	Other Funds	Total All Funds
<b>Other Obligations</b>					
Subdivision Park Trust Fund (375)	\$8,111,800	The former Agency owes the City deferred payments under the Parkland In-Lieu Fee for Low-Income Residential Units Voucher Program. In February 2010, the City Council/Agency Board approved scheduling the payment by the Agency for 2015-2016.	\$0	\$8,111,800	\$8,111,800
<b>Total</b>	<b>\$97,474,644</b>		<b>\$10,144,770</b>	<b>\$87,329,874</b>	<b>\$97,474,644</b>

This portion of the SERAF Loan borrowed from the Low and Moderate Income Housing Fund is an enforceable obligation and repayment is anticipated to be made by the Successor Agency. It should be noted, that a finding by the State Department of Finance calls into question this obligation in both the Housing Due Diligence Report and the Housing Asset Transfer Report; the Administration is working to address this issue.

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**Successor Agency Obligations with City Impacts**

As part of determining the current financial state of the Successor Agency, the Administration continues to project future property tax increment revenues and analyze the current level of enforceable obligations. Based on that analysis, the 2015-2019 February Forecast projected that there would not be sufficient property tax increment revenue to pay all of the enforceable obligations in the foreseeable future. This analysis assumed the continued withholding of tax increment associated with the PERS and Water District levies due to the continued uncertainty surrounding the Superior Court of California, County of Sacramento court case between the Successor Agency and the County of Santa Clara in regards to these monies and the priority of enforceable obligations of the Successor Agency.

Based on current projections, it is assumed that City funds would be used to ensure adequate funding for City contractually obligated Successor Agency obligations as well as administrative expenses in 2014-2015. Despite the continued withholding of tax increment, based on a recent review of financial cash flow of funds, anticipated 2014-2015 administrative expenditures, and Recognized Obligation Payments (ROPS) next year, included in this 2014-2015 Proposed Operating Budget is a recommended subsidy level of \$1.3 million.

The City is not legally obligated to assume all of the Successor Agency obligations, but there may be policy reasons for the City Council to continue certain redevelopment obligations. The City is only contractually obligated to make payments for the following Successor Agency enforceable obligations: 4<sup>th</sup> Street Garage Debt Service, Convention Center Debt Service, HUD Section 108 loan payments, Educational Revenue Augmentation Fund (ERAF) Loan Payments, and Interfund Loans made in connection with the SERAF Loan (as discussed above). In addition, due to the projected insufficient redevelopment tax increment revenues to provide funding for all obligations, the City has assumed payment of administrative costs until sufficient tax increment is received.

Should the Successor Agency be unable to complete 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 are pledged to cover this payment. Per the bond covenants for the 4<sup>th</sup> and San Fernando Street Parking Garage, revenues of both the Successor Agency and the General Purpose Parking Fund are pledged to make the loan repayment for the annual debt service of \$3.4 million related to this facility. If the Successor Agency has insufficient revenues to make the payment, the General Purpose Parking Fund is required to cover the payment.

Beginning in 2012-2013, funds have been advanced annually by the City to the Successor Agency due to insufficient funds. In 2014-2015, as discussed below, other City Funds (General Purpose Parking Fund and CDBG) are programmed to make their respective debt service payments and the General Fund is recommended to again provide funding for Successor Agency financial support.

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

Beginning in 2012-2013, the City provided financial support to the Successor Agency as a result of insufficient redevelopment tax increment revenues. Through the 2012-2013 Reimbursement Agreement and Long-Term Reimbursement Agreement between the City and the Successor Agency, "City Advance Amounts," as outlined below, are eligible for either inter-year or intra-year reimbursements. As a result of the timing of the distribution of tax increment, the City may be required to provide cash flow loans as well as structural deficit loans in the event revenues are insufficient to cover all enforceable obligations. Below are the obligations outlined in the 2012-2013 Reimbursement Agreement and Long-Term Reimbursement Agreement:

- **City Supported Agency Obligations:** City of San José Financing Authority Revenue Bonds Series 2001A (4<sup>th</sup> & San Fernando Parking Facility) Debt Service; City of San José Financing Authority Lease Revenue Bonds Series 2001F (Convention Center) Debt Service; ERAF 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.

It should be noted that the HUD Section 108 loan is not included in the 2012-2013 Reimbursement Agreement or the Long-Term Reimbursement Agreement (\$1.9 million contribution in 2012-2013 and a maximum of \$2.1 million contribution in 2013-2014 by the Community Development Block Grant Fund) per a State Department of Finance (DOF) determination. DOF determined that since the source of funds for payment of the HUD Section 108 loan repayments was CDBG funds 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. In 2014-2015, CDBG funds are once again programmed to complete a maximum of \$2.1 million in loan repayment without an assumption for reimbursement from the Successor Agency.

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

Beginning in 2012-2013, the City provided the following financial support to the Successor Agency. A portion of the funds advanced in 2012-2013 have been reimbursed during 2013-2014 as outlined below (\$11.0 million). Additional City funding that was provided in 2013-2014 is anticipated to be partially reimbursed as sufficient tax increment is available.

City Financial Support Description	2012-2013 ACTUAL	2013-2014 ESTIMATE
<i>General Fund</i>		
- Convention Center Debt Service	\$10,352,510	\$11,500,000
- Educational Revenue Augmentation Fund (ERAF) Loan	0	274,000
- General Fund Subsidy for direct Successor Agency Administrative Costs	1,649,605	1,028,000
- City Support Services: City Attorney's Office, City Clerk's Office, City Manager's Office, Finance Department Staffing (and associated overhead costs)	1,048,033	1,538,095
- Unsecured Enforceable Obligations	341,360	313,000
- City Hall Rent - 14th floor offices	100,000	100,000
<i>General Purpose Parking Fund</i>		
- 4th Street Debt Service	3,362,653	3,362,833
<i>Low and Moderate Income Housing Asset Fund</i>		
- City Support Services: Housing Department support related to Successor Agency enforceable obligations (and associated overhead costs)	121,110	71,910
<b>Total City Financial Support</b>	<b>\$16,975,271</b>	<b>\$18,187,838</b>
SARA Reimbursement	(11,000,000)	TBD
<b>Outstanding City Subsidy</b>	<b>\$5,975,271</b>	<b>TBD</b>

**City Advance Amount**

As a result of the continued projected insufficient redevelopment tax increment revenues to fund all enforceable obligations, the City has assumed payment of administrative costs until sufficient tax increment is received. The net "City Advance Amounts" as outlined in the 2014-2015 Proposed Operating Budget and City Support Services as approved by the Successor Agency Oversight Board for the Recognized Obligation Payment Schedule (ROPS) 2014-2015A is outlined below. It should be noted that this may be modified during the year through City Council approved action. The "City Advance Amounts" below excludes Community Development Block Grant funds which are planned to complete a maximum of \$2.1 million in HUD Section 108 loan payment in 2014-2015 due to the DOF ruling that the City may not be reimbursed for funds advanced for the purpose of repaying the HUD Section 108 loans.

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City Advance Amount

**2014-2015 Proposed Budget City Advance Amount  
City Support for the Successor Agency**

Description	General Fund	All Funds
<i>General Fund Subsidy for direct Successor Agency Administrative Costs</i>	\$1,300,000	\$1,300,000
<i>General Purpose Parking Fund: 4<sup>th</sup> Street Debt Service</i>	0	3,363,151
<i>City Support Services: City Attorney's Office, City Clerk's Office, City Manager's Office, Finance and Housing Department staffing (and associated overhead costs)</i>	1,865,578	1,926,022
<i>City Hall Rent - 14th floor offices</i>	100,000	100,000
<b>Total City Support</b>	<b>\$3,265,578</b>	<b>\$6,689,173</b>

As of June 30<sup>th</sup> of each fiscal year, the Successor Agency shall be obligated to reimburse the City up to the eligible intra-year advance amount for that year consistent with the procedures and priority of obligations outlined in the Reimbursement Agreement between the City and the Successor Agency. Any portion that remains outstanding will be accrued as an Enforceable Obligation under the Dissolution Law and shall be repaid as set forth in Health and Safety Code Section 34182 and consistent with the terms outlined in the Reimbursement Agreement between the City and the Successor Agency.

It should be noted that the City Attorney's Office and the Administration continue to review all of the Successor Agency obligations to reduce the impact on the General Fund, the CDBG Fund, and the General Purpose Parking Fund. The funding levels and actions in this document reflect the approved 2012-2013 Reimbursement Agreement beginning July 1, 2012, and the approval of the Long-Term Reimbursement Agreement beginning July 1, 2013. These agreements provide a mechanism for reimbursement to the City of all financial support on either a cash flow basis or for a structural deficit once sufficient funding remains in the priority of obligations through December 2015.