

**CITY OF SAN JOSE
2012-2013 ADOPTED OPERATING BUDGET**

**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"). 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 above may be deemed an enforceable obligation contingent upon 1) a finding by the State Department of Finance that all required audits of the Successor Agency have been completed, and 2) a finding by the Oversight Board that these loans were for legitimate redevelopment purposes. In the event a loan is deemed an enforceable obligation, the loan terms will need to be revised to conform to statutory criteria for interest calculations and repayment priorities. As the law provides, loans between the Low and Moderate Income Housing Fund and the former Redevelopment Agency are enforceable obligations of the Successor Agency, including the Supplemental Educational Revenue Augmentation Fund Loan, which must be repaid with funds deposited into the new Low and Moderate Income Housing Asset Fund established pursuant to AB 1484. The Administration will continue to work through these requirements during 2012-2013.

Outlined below are the outstanding loans which remained 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; repayments would require General Fund support.

Lending Fund	Outstanding Obligation (June 30, 2012)	Loan Description and Terms	Funding Source Backup Obligation		
			General Fund	Other Funds	Total All Funds
Supplemental Educational Revenue Augmentation Fund (SERAF) Loan					
Low and Moderate Income Housing Fund* (443)	\$68,924,860	Low and Moderate Income Housing Fund, Deferred Interest and Fees, 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	\$68,924,860	\$68,924,860

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			General Fund	Other Funds	Total All Funds
Supplemental Educational Revenue Augmentation Fund (SERAF) Loan					
Ice Centre Revenue Fund (432)	\$2,017,617	i) \$52.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015. ii) \$13.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2016. 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.	\$2,017,617	\$0	\$2,017,617
Sewage Treatment Plant Connection Fee Fund (539)	\$5,044,044		\$5,044,044	\$0	\$5,044,044
Subdivision Park Trust Fund (375)	\$3,026,426		\$3,026,426	\$0	\$3,026,426
Subtotal	\$79,012,947		\$10,088,087	\$68,924,860	\$79,012,947
Parking Fund Loans					
General Purpose Parking Fund (533)	\$6,800,000	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. 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.	\$0	\$6,800,000	\$6,800,000

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			General Fund	Other Funds	Total All Funds
Parking Fund Loans					
Parking Capital Development Fund (556)	\$6,728,294	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 \$6.8 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.	\$0	\$6,728,294	\$6,728,294
Subtotal	\$13,528,294		\$0	\$13,528,294	\$13,528,294
Other Obligations					
Sub-Division 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
Total	\$100,653,041		\$10,088,087	\$90,564,954	\$100,653,041

* 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.

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, it is projected that there will not be sufficient property tax increment revenue to pay all of the enforceable obligations in the foreseeable future. Therefore, based on the current conservative budget projections, it is assumed that City funds would be used to ensure adequate funding for City contractually obligated Successor Agency obligations including but not limited to debt service payments. In addition, it is assumed that the City will provide funding for administrative expenses. It is anticipated that City support will be necessary through the next five years beginning with \$16.3 million in 2012-2013.

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Successor Agency Obligations with City Impacts

It is important to note that the City is not legally obligated to assume all of the Successor Agency obligations, but there may be policy reasons why the City Council would want to see certain redevelopment obligations continue. The City is only contractually obligated to assume certain payment requirements of the Successor Agency enforceable obligations as follows: 4th Street Garage Debt Service, Convention Center Debt Service, HUD 108 Loan payments, ERAF Loan Payments, and Interfund Loans made in connection with the SERAF Loan. In addition, due to the projected insufficient redevelopment tax increment revenues to provide sufficient funding for all obligations the City has assumed payment of Administrative Budget costs until sufficient tax increment is received.

If the Successor Agency is not able 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 are pledged to cover this obligation. In the event the Successor Agency has insufficient revenues to cover all enforceable obligations, the CDBG fund may be used to cover this payment. Per the bond covenants for the 4th 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. In the event the Successor Agency has insufficient revenues to make the payment, the General Purpose Parking Fund is expected to cover the payment. Since these other City Funds are pledged to make these payments in 2012-2013 totaling \$5.3 million, the General Fund impact for support for the Successor Agency is \$11.0 million for 2012-2013.

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 Community Development Block Grant Fund, and the General Purpose Parking Fund. In addition, with approval and direction of the Successor Agency Oversight Board, the City and Successor Agency anticipated entering into a Reimbursement Agreement, which will provide a mechanism for reimbursement to the City of all financial support once sufficient funding remains in the priority of obligations beginning July 1, 2012.