



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: May 23, 2013

Approved

Date

5/24/13

SUBJECT: 2013-2014 PROPOSED CITY ADVANCE AMOUNT TO THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY

RECOMMENDATION

It is recommended that the San Jose City Council approve and budget an advance to the Successor Agency to the Redevelopment Agency of the City of San José (“Successor Agency”), a total amount of \$6.4 million for 2013-2014 as included in the 2013-2014 Proposed Operating Budget.

BACKGROUND

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 public entity.

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, as part of the revised 2013-2014 Base Budget projections, it was projected that there would not be sufficient property tax increment revenue to pay all of the enforceable obligations in the foreseeable future and that an advance of \$20.3 million would be required for 2013-2014 in all funds (\$15.0 million in the General Fund). Projected Advance Amounts would be used to ensure payment of City supported enforceable obligations as well as administrative costs associated with the winding down of the former Agency.

As a result of a tentative ruling in the Superior Court, Sacramento County, it is anticipated that the Santa Clara County of Santa Clara (“County”) will be ordered to remit tax increment funds withheld for PERS and Water District levies for 2012-2013 (\$7.65 million) and ongoing (\$7.5 million annually) to SARA. As reflected in the 2013-2014 Proposed Operating Budget, it is

anticipated that these additional funds (totaling \$15.15 million), will be received in 2013-2014, and as a result, SARA will have sufficient tax increment revenues to ensure payment of the \$13.5 million in City General Fund legally obligated Successor Agency debt in 2013-2014. With the additional tax increment revenue available to fund Successor Agency obligations and a proposed reduction in direct Successor Agency administrative costs, the necessary General Fund subsidy was reduced by \$14.15 million to \$850,000 in the 2013-2014 Proposed Budget. For the General Purpose Parking Fund, the subsidy was reduced from \$3.4 million to \$1.7 million. In addition to these costs, already budgeted in the City's General Fund were administrative costs for City Support Staffing levels as well as rent as approved by the Successor Agency Oversight Board for the ROPS 2013-2014A.

It should be noted, that if a higher court determines that the County can withhold this tax increment, an increase to the General Fund subsidy and General Purpose Parking Fund payment for debt to the Successor Agency will be necessary. Included in the 2013-2014 Proposed Operating Budget, a SARA PERS/Water District Levy General Fund Contingency Plan can be found pending the outcome of this litigation. Please refer to the City Manager's 2013-2014 Budget Message for further information.

The funding levels and actions recommended in the 2013-2014 Proposed Operating Budget assume the approval and direction of the Successor Agency Oversight Board, that the City and Successor Agency will enter into a Reimbursement Agreement, which will provide a mechanism for reimbursement to the City of all financial support on both a cash flow basis as well as a structural deficit once sufficient funding remains in the priority of obligations beginning July 1, 2012.

ANALYSIS

The City is only contractually obligated to make payments for certain of the Successor Agency enforceable obligations as follows: 4th Street Garage Debt Service, Convention Center Debt Service, HUD 108 Loan payments, and ERAF Loan Payments. 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 required to cover the payment. 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), CDBG fund may be used to cover this payment. If the Successor Agency is unable to complete payment of ERAF, the City's Property Taxes, a source to the City's General Fund, may be used to complete the payment. In 2013-2014, other City Funds are pledged to make these payments in part or in whole; the General Fund impact for support for the Successor Agency is recommended to be reduced to only administrative costs in 2013-2014.

Due to the projected insufficient redevelopment tax increment revenues to provide funding for all obligations, the City has assumed payment of Administrative Budget costs until sufficient

tax increment is received. It should be noted that to the extent increased tax increment revenue above the current projected level is available in 2013-2014, this additional revenue could further reduce the City Advance Amount. For example, current projections from the County of Santa Clara reflect higher assessed values as of May 2013, however, final estimated growth in tax increment revenues will not be available until July 2013.

The Reimbursement Agreement between the City and Successor Agency is anticipated to address any “City Advance Amounts” pertaining to the following obligations:

- **City Supported Agency Obligations:** City of San Jose Financing Authority Revenue Bonds Series 2001A (4th & San Fernando Parking Facility); City of San Jose Financing Authority Lease Revenue Bonds Series 2001F (Convention Center); ERAF loan payments; HUD 108 Loan 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, City Finance Department, and the City’s Housing Department) and other operational costs related to the general winding down of the former Redevelopment Agency.

On an annual basis, the Successor Agency in cooperation with City Staff will present the recommended City Advance amount to the City Council for consideration. Included in this Manager’s Budget Addendum is the recommended City Advance Amount as outlined in the 2013-2014 Proposed Operating Budget and City Support Staffing levels as approved by the Successor Agency Oversight Board for the ROPS 2013-2014A. It should be noted that this may be modified during a given fiscal year through City Council approved action.

**2013-2014 City Advance Amount
City Support for the Successor Agency**

Description	2013-2014 PROPOSED BUDGET	
	All Funds	General Fund
<i>General Fund Subsidy for direct SARA Administrative Costs</i>	\$850,000	\$850,000
<i>General Purpose Parking Fund 4th Street Debt</i>	1,712,833	0
<i>Community Development Building Grant HUD 108 Loan</i>	2,178,381	0
<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>	1,559,476	1,559,476
<i>City Hall Rent - 14th floor offices</i>	100,000	100,000
Total City Support	\$6,400,690	\$2,509,476

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As of June 30th of each fiscal year, the Successor Agency shall be obligated to reimburse the City up to this advance amount for that year to the extent funds are available. Any portion that remains outstanding will be accrued as an outstanding obligation and payable under a reimbursement agreement anticipated to be entered into between the City and Successor Agency.

COORDINATION

This memorandum has been coordinated with the Housing Department, the City Manager's Office, the City Attorney's Office, and the City Clerk's Office.

COST IMPLICATIONS

The costs associated with this subsidy have already been assumed as part of the 2013-2014 Proposed Operating Budget, no additional impacts are anticipated.

/s/

JULIA H. COOPER
Finance Director