

*Financing Plan to Fund the Redevelopment
Agency's Payment to the
Supplemental Educational Revenue
Augmentation Fund (SERAF)*

February 23, 2010

Item 2.0

**Joint Meeting of the City of San José City Council, City of San José
Financing Authority Board, and Redevelopment Agency Board**

Background

- The 2009-2010 State Budget Action
 - Required \$2.05 billion from redevelopment agencies to fund the Supplemental Educational Revenue Augmentation Fund (“SERAF”) to fund schools
- California Redevelopment Association Lawsuit
 - Lawsuit filed to challenge the State's budget action
 - Court ruling requested by May 2010,
 - Agency required to repay the City if lawsuit prevails
- The Agency’s SERAF payment totals \$75 million
 - \$62 million due by May 10, 2010
 - \$13 million due by May 10, 2011

Guiding Principles

Guiding Principles created to facilitate the development of the SERAF financing plan:

- Maintain fiscal health of the City and Agency
- Minimize risks to the General Fund and Housing Fund
- Maximize flexibility
- Ensure lowest cost of funds available
- Minimize impact to Housing Programs

Agency/Council Direction on SERAF Financing Plan

- \$40M loan from the Housing Fund
- \$10 million in Inter-Fund Loans
- Evaluate other sources of funding including the following in order of priority:
 1. Additional savings from Agency project cuts
 2. City to issue Commercial Paper
 3. Additional borrowing from the Sewage Treatment and the Ice Centre Revenue Funds
 4. Temporary loans from various other funds

SERAF Financing Plan

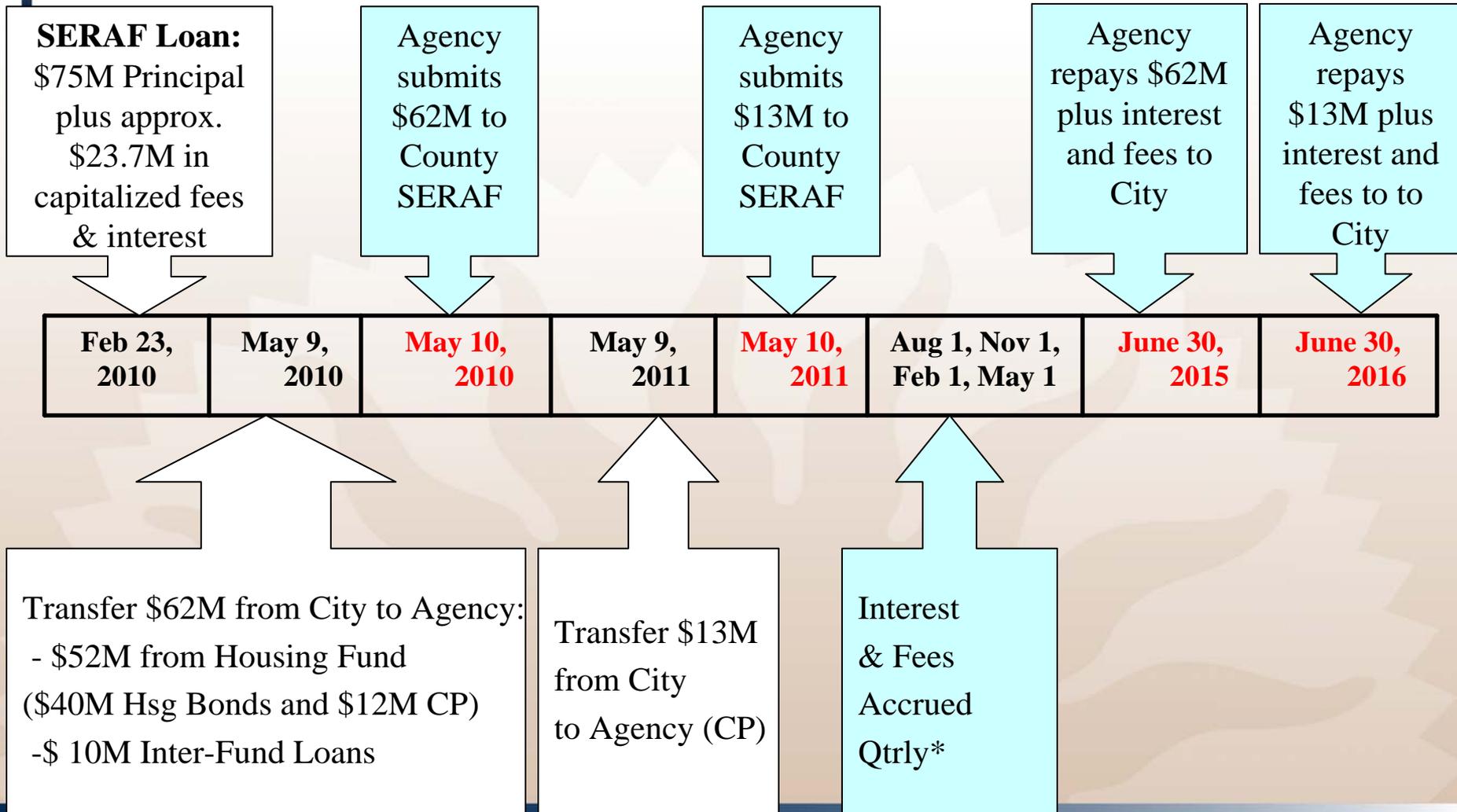
Financing Team developed SERAF financing strategy:

- City to loan the Agency a total of \$75 million
- Full reimbursement of principal, interest and fees by Agency to City
- SERAF Loan subject to certain terms and conditions
- Agency's 2009-10 Budget and 2010-15 CIP includes repayments to City starting in FY 2012-13

Proposed SERAF Financing Plan

Sources of Funds (<i>millions of dollars</i>):	<u>09-10</u>	<u>10-11</u>	<u>Total</u>
Inter-Fund Loan:			
Subdivision Park Trust Fund	\$3.0		\$3.0
Sewage Fee Fund	5.0		5.0
Ice Centre Revenue Fund	2.0		2.0
Total Inter-Fund Loans	\$10.0		\$10.0
Low-Mod Housing Fund Loan:			
Sources: Housing Bonds	40.0		40.0
Commercial Paper Notes	12.0	13.0	25.0
Total Housing Fund Loan	\$52.0	\$13.0	\$65.0
Total Sources of Funds	\$62.0	\$13.0	\$75.0
Use of Funds: SERAF Payment	\$62.0	\$13.0	\$75.0

SERAF Loan Timeline



* Repayment expected starting in FY 2012-13 per Agency's 2010 Budget and 2010-2015 CIP (Attachment A)

Agency's Repayment Obligation

- Total SERAF Loan repayment obligation
 - \$75 million principal
 - \$23.7 million in estimated interest and fees*
- \$83 million repayment included in the Agency's 2009-2010 Budget and 2010-2015 CIP
- Anticipated final repayment in 2016 of \$15.7 million

** Actual interest and fees may be different pending market conditions*

Key Terms and Conditions

- Agency's intent to repay Housing Fund Loan within 5 years
 - Failure to repay within 5 years triggers an increase in tax increment for housing
 - City's intent of first priority of Agency's repayment to Housing Fund
- Agency to fully reimburse City principal, interest and fees related to SERAF Loan

Key Terms and Conditions (Continued)

- Repayment from Agency's legally available unrestricted funds
- Loan callable as needed
- Repayment priority to be determined by City based on need
- No prepayment penalty
- California Theatre to be pledged as security for the CP Notes

Additional Considerations

- SERAF Loan increases Agency's total obligations to City to over \$120 million
- Agency's existing obligations (not including SERAF) total over \$23 million annually with potential General Fund risk
- Spring of 2009 the City loaned the Agency unrestricted funds for Agency cash flow needs
- City may be subject to additional risks and credit obligations on the proposed convention center expansion project

Follow-Up Council Actions

March
2010

- Approval of Issuance of Housing Set-Aside Tax-Allocation Bonds

April/
May
2010

- Approval of Amendments to the CP Program
- Approval of Budget Actions related to SERAF

Summary

- The proposed financing plan
 - Implements Council/Agency Board actions taken on December 15, 2009
 - Achieves the goals established for the SERAF Guiding Principles
 - Provides funding to enable the Agency to make the SERAF payments as required by State law

Back-Up Slides

Outstanding Agency Obligations to the City*

(in millions of dollars)

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total All Funds</u>
<u>SERAF Loan</u>			
Housing Bonds		\$40.0	\$40.0
Commercial Paper	25.0		25.0
City Loans (Park Trust, Treatment Plant Connection Fee, Ice Center)	10.0		10.0
Deferred Interest & Fees on SERAF (estimated)		23.7	23.7
Sub-total SERAF Loan	<u>\$35.0</u>	<u>\$63.7</u>	<u>\$98.7</u>
<u>Other Loans/Obligations *</u>			
Park Trust Vouchers		8.1	8.1
4th/San Fernando Debt Service Loans		6.8	6.8
Original Parking Loan		6.8	6.8
Sub-total Other Loans/Obligations	<u>\$0.0</u>	<u>\$21.7</u>	<u>\$21.7</u>
Total Loans and Obligations Due to City	<u>\$35.0</u>	<u>\$85.4</u>	<u>\$120.4</u>

**Interest not included in total payments due to City*

Annual Agency Legal Obligations with City Risk¹

(in millions of dollars)

4 th and San Fernando Street Parking Garage	\$3.4
ERAF Payment ²	4.5
HUD Section 108 ³	1.2
Convention Center Debt Service	14.3
	<hr/>
Total Annual Agency Obligations with City Risk	<u><u>\$23.4</u></u>

Notes

- ¹ These annual obligations would need to be paid by the General Fund in the event the Agency could not meet these obligations.
- ² The State's FY 2004-05 and FY 2005-06 budgets mandated payments to the State from redevelopment agencies statewide. Instead of diverting cash reserves or tax increment for the lump sum ERAF payment, the Agency borrowed funds in 2005 and 2006 through the California Statewide Community Development Authority (CSCDA) loan program to fund its portion of the obligation. Education Revenue Augmentation Fund (ERAF) Loans (2005 & 2006) total approximately \$4.5 million per year through August 1, 2016. In the event the Agency has insufficient funds to make any of its ERAF Loan Payments, the County Auditor is required to deduct the payment from the City's first available ad valorem property taxes.
- ³ The Agency acquired two Section 108 loans through the US Department of Housing and Urban Development (HUD) for Agency Projects. To the extent that the Agency fails to make a timely HUD Loan Debt Service payments, HUD may withhold CDBG funds otherwise due to the City, since the loans are secured by the City's current and future CDBG Funds.