



SUPPLEMENTAL

COUNCIL AGENDA: 02-23-10
ITEM: SJFA #2

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Debra Figone
Harry S. Mavrogenes

SUBJECT: OUTSTANDING AGENCY
OBLIGATIONS TO THE CITY

DATE: February 22, 2010

SUPPLEMENTAL

Since the release of the Redevelopment Agency's Proposed Budget and Capital Improvement Program, City and Agency staff teams and the City Attorney's Office have been working hard and diligently under challenging circumstances to bring back to the Mayor and City Council analysis and recommendations associated with the policy direction that we have received from you on a number of very important items such as actions related to the Convention Center and SERAF. These items are scheduled to be discussed and acted upon by the Council on Tuesday, February 23, 2010.

Given the number of complex financial transactions associated with these items, including the approval of the Redevelopment Agency's budget, and the questions we've received from a number of Council Offices, the attached document includes an updated and comprehensive list of Agency obligations to the City as a result of previously agreed upon transactions approved by the City Council and the most recent set of recommendations being proposed.

Throughout the years, the City and Agency have worked together successfully on numerous projects that have benefited and improved the quality of life of our residents. For example, the Agency has built the Arena, Convention Center, the Tech Museum of Innovation, the Children's Discovery Museum, and rehabilitated the California Theatre. In addition, the Agency has transferred considerable funds to assist the City's budget by funding San Jose BEST, SNI and code enforcement staff, just to name a few.

However, these are extraordinary times and the fiscal challenges that we face today are unprecedented in the history of both of our organizations. As we move forward with the actions on February 23rd, staff and Council must do so with the understanding that our future remains challenging as funding arrangements become more limited. As an example, the City and Agency have worked cooperatively in the past to loan the Agency unrestricted City funds to meet the Agency's operating needs, which are then repaid with Agency bond funds that are restricted for City public projects. In light of the direction to limit the number of new public facilities with operating and maintenance costs that negatively impact the General Fund, it will be increasingly difficult for the City to identify projects for these funds and therefore these loans will be less available in the near future. Moving forward, recommendations from staff and decisions by

HONORABLE MAYOR AND CITY COUNCIL
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Council must be made with great care, balance and consideration to ensure that any additional debt must be carefully evaluated in the context of existing obligations currently backed by the General Fund regardless of position in the financing structure.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.



DEBRA FIGONE
City Manager



HARRY S. MAVROGENES
Executive Director

Attachment

Table 1
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>
<i>*Interest not included in total payments due to City</i>			

Table 2
Annual Agency Obligations with City Risk ¹
(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	<u>14.3</u>
Total Annual Agency Obligations with City Risk	<u>\$23.4</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.

Table 3
**Additional Considerations Related to the
Financial Obligations between the City and the Agency.**

1 City currently has \$44.7 million of Agency unspent tax-exempt bond proceeds for various City projects located in or a benefit to redevelopment project areas. However with changing City priorities, finding eligible substitute projects is becoming more difficult

2 Downtown High-rise Inclusionary Fee for Affordable Housing - \$5.0 million