



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL/SUCCESSOR  
AGENCY BOARD

**FROM:** RICHARD A. KEIT  
MANAGING DIRECTOR

**SUBJECT:** SUCCESSOR AGENCY  
JANUARY-JUNE 2013  
ADMINISTRATIVE BUDGET

**DATE:** August 16, 2012

Approved

Date

8/17/12

## RECOMMENDATION

Adopt resolutions:

- (a) By the City Council, acting in its capacity as the Successor Agency of the Redevelopment Agency of the City of San José, approving the Administrative Budget for January-June 2013 and directing staff to present it to the Oversight Board for approval.
- (b) By the City Council approving the January-June 2013 Administrative Budget.

## OUTCOME

Approval of the proposed Successor Agency Administrative Budget will advance the item to the Oversight Board meeting on August 23, 2012.

## BACKGROUND

The redevelopment dissolution legislation requires, among other things, that the Successor Agency present to the Oversight Board every six months, an Administrative Budget that upon approval, is to be included in the Recognized Obligation Payment Schedule ("ROPS"). The Administrative Budget provides information on personnel, non-personnel costs, and city support services needed for the operations of the Successor Agency.

Due to insufficient redevelopment tax increment revenues, as confirmed by the County Auditor Controller and the State Controller's Office, the San José Successor Agency will have no revenue to pay for administrative costs in 2012-2013 and into the foreseeable future. As such, it is recommended that these costs be advanced by the City. For this reason, on April 12, 2012, the Oversight Board adopted a resolution directing the Successor Agency to prepare a Reimbursement Agreement with the City to establish an enforceable obligation for repaying the

City for expenditures incurred by the City on behalf of the Successor Agency including administrative costs. The Reimbursement Agreement effective July 1, 2012, outlines the details regarding funds advanced by the City subject to City Council appropriation action and Successor Agency repayment obligations subject to Oversight Board and State approval.

### ANALYSIS

AB X1 26 (Health and Safety Code Section 34177(j)) requires that Successor Agencies prepare an administrative budget for each six-month period and submit it to its Oversight Board for approval. The legislation requires that the administrative costs not exceed 3 percent (3%) of the property tax allocated to the Successor Agency each fiscal year. Based on current projected tax increment of \$169 million, the maximum allowable administrative costs are approximately \$5.1 million for 2012-2013. The proposed total Administrative Budget for 2012-2013 reflects estimated expenditures of \$2.5 million, 49% of the estimated allowable expenditures. The Administrative Budget will be presented for approval to the City Council and Oversight Board on a six-month basis, consistent with the schedule for the review of the Recognized Obligation Payment Schedule. Upon approval of the Administrative Budget by both the Successor Agency Board and Oversight Board, it will be included as a component of the Recognized Obligation Payment Schedule for the same six month ROPS period.

The Administrative Budget includes Successor Agency personnel and non-personal costs (rent, supplies, equipment rental, professional contractual services) and City support services for a specified time period. In May 2012, the Administrative Budget for the period July through December 2012, was approved by both the City Council in its capacity as the Successor Agency Board (May 1, 2012) as well as the Oversight Board (May 3, 2012) with estimated expenditures of \$1.2 million. This memorandum outlines the proposed six-month Administrative Budget from January to June 2013, Attachment A, with estimated expenditures of \$1.3 million. Each line item in Attachment A identifies payee name, description of work, source/payment, and the total budgeted amount through June 2013.

The Successor Agency staff continues to be diligent in keeping costs down. Successor Agency staff only replaced one of the two staff that recently left the Agency. Current staff consists of six full-time benefitted employees, one full-time un-benefitted employee and one part-time un-benefitted employee.

The source of funding for City support services is intended to be the Redevelopment Property Tax Trust Fund, formerly tax increment dollars. However, as stated above, due to insufficient tax increment revenue in 2012-2013, to cover all the obligations of the former Redevelopment Agency, it is recommended that the City's General Fund provide support to the Successor Agency in a total amount of \$1.3 million for the Administrative Budget from January through June 2013.

The Administrative Budget for January 2013 to June 2013 reflects an increase of \$321,042 from the forecasted amount of \$957,414 approved by the Council on May 1, 2012. This increase reflects the following changes:

- AB 1484 legislation outlines a new “due diligence review” to determine the unobligated balances available for transfer to taxing entities. On August 9, 2012, the Oversight Board approved the use of BPM Auditors to perform the due diligence review. Since most of the work completed by BPM for the County Auditor Controller’s Agreed Upon Procedures can be used for the due diligence review, it is expected that the additional audit costs will not exceed \$75,000.
- Increased costs, in the amount of \$30,250, associated with the annual financial audit by Macias Gini & O’Connell (“MGO”) are anticipated. The financial audit for 2011-2012 will require additional audit work since it involves the completion of a Comprehensive Annual Financial Report (CAFR) for the former Redevelopment Agency for the reporting period July 1, 2011 to January 31, 2012, and a separate set of financials for the Successor Agency to the Redevelopment Agency of the City of San José effective February 1, 2012 to June 30, 2012.
- Increased costs associated with anticipated City Support Services required during the winding-down process of the former Redevelopment Agency. With the limited staff of the Successor Agency, the City continues to play a pivotal role in providing support services to the Successor Agency through a multi-departmental team working to transition and wind-down the business of the former Agency. The complexity of this process has required senior executive level positions to support these efforts; included in this team are legal services, services from the City Clerk’s Office, rent for occupancy at City Hall, assistance from the Finance, Housing, and Transportation Departments as well as oversight from the City Manager’s Office, assistance from the Office of Economic Development Real Estate services and operating costs associated with the Mayor and City Council in their capacity as the Successor Agency Governing Board. This revised budget amount more accurately reflects the City Services provided to the Successor Agency.

### **EVALUATION AND FOLLOW-UP**

The Successor Agency staff will submit the approved Administrative Budget to the Oversight Board for consideration on August 23, 2012. If approved by the Oversight Board, the administrative costs contained in the Administrative budget will be included in the ROPS also being considered by the Oversight Board on August 23, 2012, and then submitted to the State Department of Finance (“DOF”). DOF will have forty-five days to review the ROPS, including the Administrative Costs. If DOF rejects any item on the ROPS, including Administrative Costs, the Successor Agency may request additional review in a meet and confer process. In addition, the County Auditor Controller may object to any item on the ROPS, including Administrative Costs. The County Auditor Controller may object to the Oversight Board, or directly to the

DOF, after Oversight Board approval, but cannot submit objections any later than 60 days before the next distribution of property taxes to the Redevelopment Property Tax Trust Fund. For this ROPS period, the County's last day to submit an objection to the DOF would be October 1, 2012.

Successor Agency staff will continue to return to the City Council and the Successor Agency Board regarding Oversight Board actions that impact the City's budget. The Administrative Budget will be brought forward every six months consistent with the requirements in the legislation.

### **PUBLIC OUTREACH/INTEREST**

- ✓ **Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater.  
**(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum will be posted to the City's website with the August 21, 2012 City Council agenda.

### **COORDINATION**

This item was coordinated with the City Attorney's Office and the City Manager's Budget Office.

### **COST IMPLICATIONS**

The proposed Administrative Budget reflects an increase of approximately \$321,000 from the forecasted approximate amount of \$957,000, approved by the Council on May 1, 2012, and estimates used in the development of the City's 2012-2013 Adopted Operating Budget. Approximately \$234,000 of the \$321,000 increase is attributed to City Support Services has already been included in the City's budget. The remaining \$86,000 of the \$321,000 increase may require an adjustment in the General Fund support for Successor Agency, which will be brought forward for City Council consideration at a later date.

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**CEQA**

Exempt, File No. PP12-008.



Richard A. Keit  
Managing Director Successor Agency

For questions, please contact Abe Andrade, Chief Fiscal Officer at (408) 795-1821.

Attachment A: Proposed SARA Administrative Budget January 1, 2013-June 30, 2013.

Administration of Operation	Payee	Description of Work	Source/Payment 34177 (I)(1)(A-E) *	Total
Successor Agency personnel	Personnel Staff	Personnel costs for operations	City of San Jose General Fund Transfer	494,010
SJRA - unemployment benefits	EDD	Ongoing Unemployment benefits of former staff	CSJ General Fund Transfer	30,000
Successor Agency operations	Value Business Products	Office supplies/equipment on an as-needed basis	CSJ General Fund Transfer	300
Successor Agency operations	AT&T Mobility	Monthly cell phone usage - SARA employees	CSJ General Fund Transfer	1,300
Successor Agency operations	City of San José	SARA phone bill	CSJ General Fund Transfer	1,200
Successor Agency operations	Pitney Bowes Global Financial	Lease of postage meter machine	CSJ General Fund Transfer	2,392
Successor Agency operations	Ricoh	Monthly lease and usage of copiers	CSJ General Fund Transfer	4,200
Successor Agency operations	Misc Vendors	Meeting and office equipment maintenance expenses	CSJ General Fund Transfer	750
Successor Agency operations	CDW-Government, Inc.	Computer/printer supplies on an as-needed basis	CSJ General Fund Transfer	300
Successor Agency financial system	Systems Management, Inc.	JD Edwards Technical Support Services*	CSJ General Fund Transfer	1,500
Successor Agency operations	Chang, Ruthenberg & Long PC	Legal Services - Employee Benefits**	CSJ General Fund Transfer	600
Successor Agency operations	Jones Hall	Legal services on an as-needed basis**	CSJ General Fund Transfer	10,000
Successor Agency operations	TBD - Outside Counsel	Oversight Board legal services*	CSJ General Fund Transfer	10,000
Annual financial audit	Macias, Gini & O'Connell, LLP	Financial Audit Services	CSJ General Fund Transfer	30,250
Due Diligence Review	BPM	Audit services required by AB1484 to complete new "due diligence review" requirements.	CSJ General Fund Transfer	75,000
Successor Agency employee benefit plan	EFLEXGROUP, Inc.	Flexible spending account administration-employee benefit	CSJ General Fund Transfer	300
Successor Agency operations	ADP, Inc.	Services associated with SARA payroll processing	CSJ General Fund Transfer	4,020
Successor Agency retirement plans	Standard Retirement Services, Inc.	Investment administration services	CSJ General Fund Transfer	2,000
Successor Agency retirement plans	Stancorp Investment Advisers, Inc.	Investment services	CSJ General Fund Transfer	8,000
Successor Agency employee benefit plan	Lee Hecht Harrison LLC	Transition Employment Services**	CSJ General Fund Transfer	2,000
Successor Agency operations	Oracle America, Inc.	JD Edwards Financial Software Update License & Support	CSJ General Fund Transfer	18,334
Successor Agency operations	Progent Corporation	Information technology network system assessment in connection with IT	CSJ General Fund Transfer	1,000
Successor Agency operations	Ross Financial	On-going financial advisor services **	CSJ General Fund Transfer	5,000
City Support Services	City of San José	City staff costs (legal, Clerck, financial, housing, oversight)	CSJ General Fund Transfer	526,000
City Hall Lease	City of San José	Leased space-14th Floor Tower	CSJ General Fund Transfer	50,000
<b>ADMINISTRATION BUDGET JANUARY - JUNE 2013</b>				<b>1,278,456</b>
* The source of funding for these services is intended to be the Redevelopment Property Tax Trust Fund, however, due to projected insufficient tax increment to cover obligations, it is recommended that the City's General Fund provide support.				
** Contracted services on an as-needed basis				