

CITY OF SAN JOSE
2019-2020 PROPOSED 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”), a separate public entity. Over the years, the City of San José made a number of loans to the former 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 below may be deemed an enforceable obligation contingent upon 1) the issuance of a Notice of Completion finding by the State Department of Finance (DOF), and 2) a finding by the Oversight Board of the Successor Agency that these loans were for legitimate redevelopment purposes. The passage of California Senate Bill 107 (“SB 107”) on September 22, 2015 narrowed the scope of loans eligible to be reinstated. If a loan is reinstated, the loan terms need to be revised to conform to statutory criteria for interest calculations and repayment priorities.

Under SB 107, the City is entitled to interest on the loans at a rate of 3% from the origination date of the loan and provides that twenty percent (20%) of any additional loan repayments to the City shall be transferred to the Low and Moderate Income Housing Fund (“LMIHF”).

Since fiscal year 2018-2019 was the first year the taxing entities received a distribution from property tax revenue, repayment of the reinstated loans will commence in fiscal year 2019-2020. Dissolution Law allows for loan repayments up to 50% of the previous year’s tax increment distribution, and it is anticipated the outstanding loans will be repaid in fiscal year 2019-2020.

Outlined below is a summary of the outstanding loans from the City to the former Redevelopment Agency, which were in effect as of February 1, 2012. Upon the dissolution of the former Redevelopment Agency, the loans were subsequently reinstated by the Oversight Board pursuant to the Dissolution Law and approved by DOF. Dissolution law provides that the maximum amount authorized for repayment of reinstated loans is fifty percent (50%) of the increase in the amount of property tax revenue distributed to the taxing entities in the 2012-2013 base year and the amount distributed to the taxing entities in the applicable fiscal year of repayment.

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Lending Fund	Outstanding Obligation (June 30, 2019)	Loan Description and Terms	Funding Source Backup Obligation		
			General Fund	Other Funds	Total All Funds
Supplemental Educational Revenue Augmentation Fund Loans					
Low and Moderate Income Housing Fund (443)	\$15,945,149	<p>The Low and Moderate Income Housing Fund and other City funds loaned funds to the former San José Redevelopment Agency (Agency) to enable the former Agency to make the State mandated payment of \$12.8 million to the Supplemental Educational Revenue Augmentation Fund (SERAF) on 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 was required to repay the SERAF Loan as follows:</p> <p>i) \$12.8 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2016. Per Successor Agency Oversight Board action, which became effective on May 26, 2016, the loan for \$12.8 million was reinstated along with the approval of a repayment plan. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was May 10, 2011.</p>	\$0	\$15,945,149	\$15,945,149
General Fund (001)	\$12,741,918	<p>In 2014-2015, the General Fund paid off the \$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), shifting the funding source of this portion (\$10.0 million) of the SERAF loan between the City and the former Agency. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was May 10, 2010. On May 26, 2016, this loan was reinstated and approved for repayment to the City upon terms set forth in the Dissolution Law.</p>	\$12,741,918	\$0	\$12,741,918

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			General Fund	Other Funds	Total All Funds
Subtotal SERAF Loans	\$28,687,067		\$12,741,918	\$15,945,149	\$28,687,067
Parking Fund Loans					
General Purpose Parking Fund (533)	\$9,247,441	<p>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 4th 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.</p> <p>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. Payment was not made by that date; therefore, interest is due on the \$6.8 million. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was July 1, 2007. Per a Successor Agency Oversight Board action, which became effective on March 28, 2017, the loan for \$6.8 million was reinstated along with the approval of a repayment plan.</p>	\$0	\$9,247,441	\$9,247,441
Parking Capital Development Fund (556)	\$8,615,164	<p>In February 2010, the City Council approved an additional loan to the former Agency for debt service payments on the 4th 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</p>	\$0	\$8,615,164	\$8,615,164

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			General Fund	Other Funds	Total All Funds
		Redevelopment Agency called for a full repayment of this \$6.7 million loan to the Parking Capital Development Fund on or before June 30, 2015. If payment was made by this date, interest on the \$6.7 million would be waived. Payment was not made by that date; therefore, interest is due on the \$6.7 million. Under the Dissolution Law, interest accrues at a rate of 3% from the origination of the loan, which was February 23, 2010. Per a Successor Agency Oversight Board action, which became effective on March 28, 2017, the loan for \$6.7 million was reinstated along with the approval of a repayment plan.			
Subtotal Parking Fund Loans	\$17,862,605		\$0	\$17,862,605	\$17,862,608
Total	\$46,549,672		\$12,741,918	\$33,807,754	\$46,549,672

City Support for the Successor Agency

The Successor Agency has repaid all outstanding City advances needed because of insufficient property tax revenues and which covered debt, Successor Agency administrative costs, city support, and unsecured enforceable obligations. Using the current level of annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF) and the continued ability to reserve RPTTF funds each year for debt service, it is anticipated the Successor Agency will be able to pay all of its debt service going forward without an advance from the City. However, this may change if property tax revenues decrease in the future.

The City continues to provide staffing for administrative support services from the City Manager’s Office, the City Clerk’s Office, the City Attorney’s Office, and the Finance Department to the Successor Agency, related to the general winding down of the former Redevelopment Agency. Under Dissolution Law, these administrative costs are treated as an enforceable obligation and will be paid along with other enforceable obligations of the Successor Agency as allowed by tax increment revenue. The 2019-2020 amount for City support costs is \$339,000.