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 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.

Outlined below is a summary of the outstanding loans from the City to the former Redevelopment Agency, which remained as of February 1, 2012, upon the dissolution of the former Redevelopment Agency and which loans were subsequently reinstated by the Oversight Board pursuant to the Dissolution Law and approved by DOF.
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 payments of $62.0 million and $12.8 million to the Supplemental Educational Revenue Augmentation Fund (SERAF) on May 10, 2010 and 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:

i) $40.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015;
ii) $12.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015; and
iii) $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 July 1, 2011.

Per a Successor Agency Oversight Board action, which became effective on May 26, 2016, the loans for $40.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015 and $12.0 million principal plus associated costs due to the Low and Moderate Income Housing Fund by June 30, 2015 (issuance of commercial paper) were not reinstated, and the outstanding obligations were removed from the City’s
### CITY OF SAN JOSE
2017-2018 ADOPTED OPERATING BUDGET

SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY
OBLIGATIONS AND RISKS TO THE CITY

<table>
<thead>
<tr>
<th>Lending Fund</th>
<th>Outstanding Obligation (June 30, 2017)</th>
<th>Loan Description and Terms</th>
<th>Funding Source Backup Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>financial statements as of June 30, 2016. It is important to note the debt issued for the $40 million and $12 million has been identified as an enforceable obligation and is included on the Recognized Obligation Payment Schedule. As such, the annual debt service on the outstanding amount is being paid.</td>
<td></td>
</tr>
<tr>
<td>General Fund (001)</td>
<td>$12,141,918</td>
<td>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 July 1, 2010. On May 26, 2016, this loan was reinstated and approved for repayment to the City upon terms set forth in the Dissolution Law.</td>
<td>$12,141,918 $0 $12,141,918</td>
</tr>
</tbody>
</table>

Subtotal $27,318,127 $12,141,918 $15,176,209 $27,318,127

### Parking Fund Loans

<table>
<thead>
<tr>
<th>Lending Fund</th>
<th>Outstanding Obligation (June 30, 2017)</th>
<th>Loan Description and Terms</th>
<th>Funding Source Backup Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Purpose Parking Fund (533)</td>
<td>$8,805,907</td>
<td>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.</td>
<td>$0 $8,805,907 $8,805,907</td>
</tr>
</tbody>
</table>
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.

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 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 July 1, 2007. 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.
Successor Agency Obligations with City Impacts

The City is not liable for the debts of the Successor Agency, but there may be policy reasons for the City Council to continue to make payments of certain Successor Agency obligations. Currently, the City is only contractually obligated to make payments for the following Successor Agency enforceable obligations: 4th and San Fernando Parking Garage Debt Service, Convention Center Debt Service, and Federal Department of Housing and Urban Development (HUD) Section 108 loan payments.

As part of determining the current financial state of the Successor Agency, the Administration continues to analyze projected future property tax increment revenues and the current level of funds needed to pay the Successor Agency’s enforceable obligations. Based on that analysis, it is projected that there would not be sufficient property tax increment revenue to pay all of the enforceable obligations in the immediate future. Since the Successor Agency prevailed in litigation against the County of Santa Clara (County) regarding the withholding of the PERS and Water District levies by the County, the ultimate resolution of that litigation should allow for some repayment of City funds advanced to pay for certain Successor Agency enforceable obligations, although there may not be sufficient funds to fully repay the City at this time.

Should the Successor Agency be unable 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) funds may be used to cover this payment, which is again the case for 2017-2018. Per the bond covenants for the 4th and San Fernando 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 approximately $3.4 million related to this facility. If the Successor Agency has insufficient revenues to make the payment, the General Purpose Parking Fund is required to cover the payment. It is assumed in 2017-2018 that no payment will need to be made by the General Purpose Parking Fund.

Reimbursement Agreement between the Successor Agency and the City of San José

Beginning in 2012-2013, the City has provided financial support to the Successor Agency as a result of insufficient property tax increment revenues to pay all enforceable obligations. Through the 2012-2013 Reimbursement Agreement and the subsequent Amended and Reinstated Long-Term Reimbursement Agreement (together the “Reimbursement Agreement”) between the City and the Successor Agency, “City Advance Amounts” were eligible for either inter-year or intra-year reimbursements. Below are the obligations outlined in the Reimbursement Agreement:

- **City Supported Agency Obligations**: City of San José Financing Authority Revenue Bonds Series 2001A (4th and San Fernando Parking Garage) Debt Service and City of San José Financing Authority Lease Revenue Bonds Series 2001F (Convention Center) Debt Service 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, Finance Department, and the Housing Department), and other operational costs related to the general winding down of the former Redevelopment Agency.

However, on September 22, 2015, California Senate Bill 107 was signed into law and amended the Dissolution Law, which now disallows the Successor Agency’s ability to reimburse the City for cash advances on an intra-year basis. The outstanding portion of all advances made through 2016-2017 will not be repaid until there is sufficient property tax revenue to pay all other enforceable obligations since obligations to the City are subordinate to all other enforceable obligations. Under SB 107, the City is entitled to interest on the loans at a rate of 3% from the origination date of the loan. Furthermore, after all SERAF repayments are made to the Low and Moderate Income Housing Fund (LMIHF), the Dissolution Law provides that twenty percent (20%) of any additional loan repayments to the City shall be transferred to the LMIHF.

At the end of 2016-2017, the total enforceable obligation to be repaid by the Successor Agency is $29.7 million for the accrued outstanding portion of prior year subsidies, including 2016-2017 Successor Agency direct administrative or City support costs through June 30, 2017. Based on continued, moderate tax increment growth, repayment is expected in 10 to 15 years. 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.

It should be noted that the HUD Section 108 loan, approximately $2.0 million annually paid by the Community Development Block Grant (CDBG) Fund, is not included in the Reimbursement Agreement, per a DOF determination. DOF determined that since CDBG funds are an allowable source of funds for the HUD Section 108 loan repayments and the CDBG funds are security for the payment of the HUD Section 108 loans, the City may not be reimbursed for funds advanced for the purpose of repaying the HUD Section 108 loans. As discussed earlier, in this 2017-2018 Adopted Budget and consistent with past practice beginning in 2012-2013, CDBG funds are once again programmed to complete a maximum of $2.2 million in loan repayment without an assumption for reimbursement from the Successor Agency.
CITY OF SAN JOSE  
2017-2018 ADOPTED OPERATING BUDGET  
SUMMARY OF THE SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
OBLIGATIONS AND RISKS TO THE CITY

--- | --- | --- | --- | --- | --- |
General Fund | | | | | |
- Convention Center Debt Service | $10,352,510 | $9,960,002 | $12,627,600 | $9,800,000 | $0 |
- Educational Revenue Augmentation Fund (ERAF) Loan | 0 | 1,615,000 | 0 | 0 | 0 |
- General Fund Subsidy for direct Successor Agency | 1,649,605 | 1,229,762 | 931,690 | 593,757 | 569,900 |
  Administrative Costs | | | | | |
- City Support Services: City Attorney’s Office, City Clerk’s Office, City Manager’s Office, and Finance Department | 1,048,033 | 1,506,789 | 1,267,224 | 743,680 | 806,625 |
  Staffing (and associated overhead costs) | | | | | |
- Unsecured Enforceable Obligations | 341,360 | 310,236 | 140,710 | 151,634 | 141,245 |
- City Hall Rent - 13th floor offices | 100,000 | 100,000 | 100,000 | 16,112 | 16,113 |
General Purpose Parking Fund | | | | | |
- 4th and San Fernando Parking Garage Debt Service | 3,362,653 | 3,362,832 | 1,681,713 | 1,681,576 | 0 |
Low and Moderate Income Housing Asset Fund | | | | | |
- City Support Services: Housing Department support related to Successor Agency Enforceable Obligations (and associated overhead costs) | 121,110 | 51,380 | 5,317 | 0 | 0 |
Total City Financial Support | $16,975,271 | $18,136,001 | $16,754,254 | $12,986,759 | $1,533,883 |
SARA Reimbursement | (11,000,000) | (12,902,222) | (12,759,251) | 0 | 0 |
Outstanding City Subsidy | $5,975,271 | $5,233,779 | $3,995,003 | $12,986,759 | $1,533,883 |
Total 5-Years | | | | | $29,724,695 |

City Advance Amount

As a result of the continued projected insufficient property tax increment revenues to fund all of the Successor Agency’s enforceable obligations, the City has assumed payment of administrative costs until sufficient property tax increment revenues are received. The net “City Advance Amounts” as outlined in this 2017-2018 Adopted Operating Budget and City Support Services, as approved by the Successor Agency Oversight Board for the Recognized Obligation Payment Schedule 2017-2018, are detailed below. It should be noted that this may be modified during the year through a City Council-approved action. The “City Advance Amounts” below excludes CDBG funds, which are planned to make a maximum $2.2 million HUD Section 108 loan payment in 2017-2018 due to the DOF ruling, as discussed earlier in this section.
In 2017-2018, insufficient property tax increment (RPTTF funds) continues to be projected such that the Successor Agency will not be able to pay all of its enforceable obligations; therefore, it is anticipated that the City will assist in paying Successor Agency administrative costs, requiring a General Fund subsidy of $880,000. This figure includes a $95,000 reduction from the 2016-2017 subsidy level; additional details can be found in the City-Wide Expenses section of this document.

As of June 30th of each fiscal year, prior to the adoption of California Senate Bill 107, the Successor Agency was obligated to reimburse the City up to the eligible intra-year advance amount for that year consistent with the procedures and priority of obligations outlined in the Reimbursement Agreement between the City and the Successor Agency. Any portion that remained outstanding each year has accrued as an Enforceable Obligation under the Dissolution Law and will be repaid as set forth in Health and Safety Code Section 34182. Due to the passage of California Senate Bill 107, this is no longer the case, and any required intra-year advance amounts to the Successor Agency will now be accrued as an Enforceable Obligation to be repaid when the Successor Agency has sufficient funds available to pay all of its enforceable obligations. It should be noted that the City Attorney’s Office and the Administration continue to review all of the Successor Agency obligations to reduce the impact on the General Fund, the CDBG Fund, and the General Purpose Parking Fund.