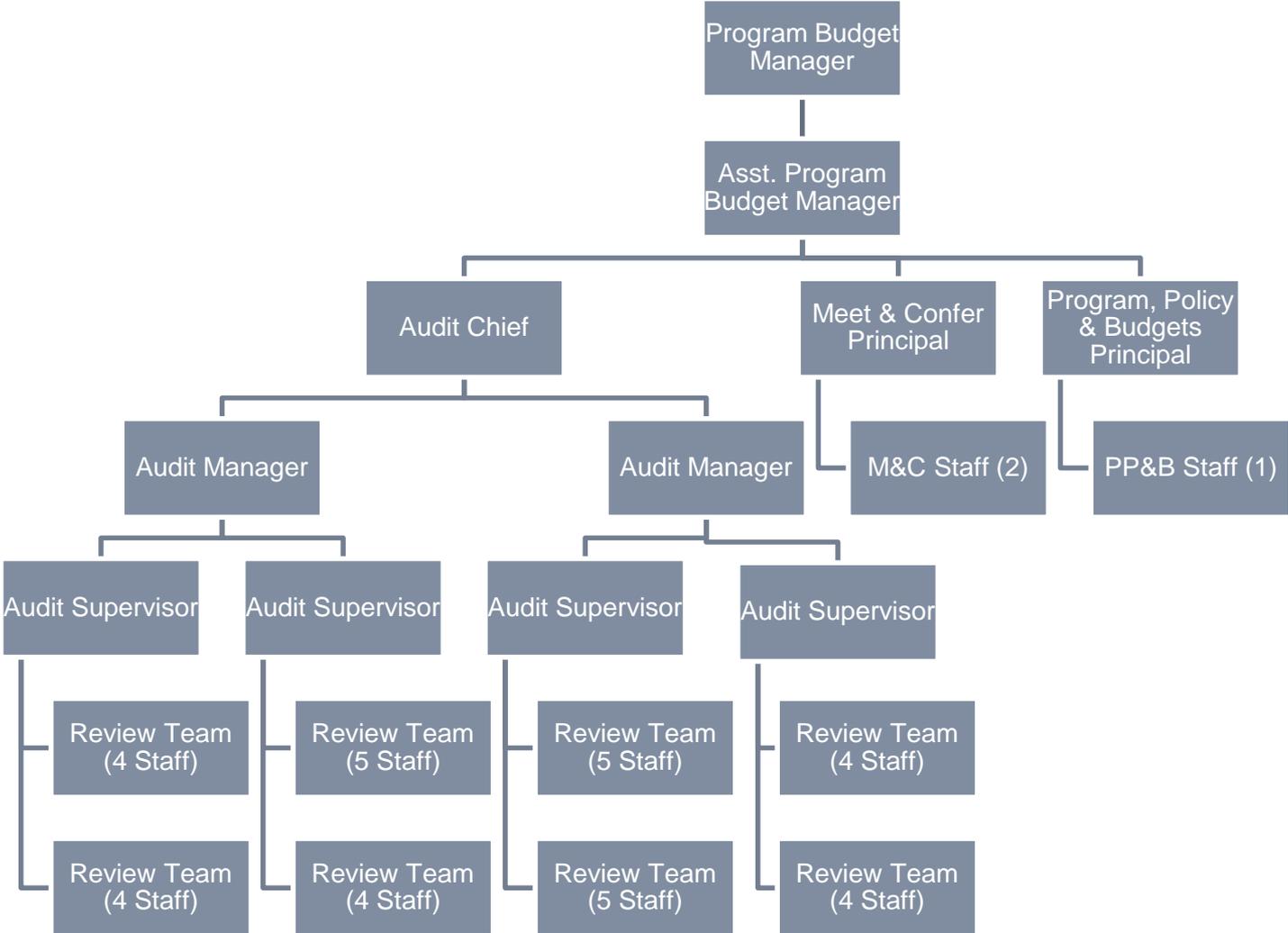


California Department of Finance, Local Government Unit

Presentation to the California Society of Municipal
Fiscal Officers

February 20, 2014

Local Government Unit – Organizational Chart



RDA Dissolution Basics

- Pursuant to ABx1 26 of 2011, RDAs were prohibited from engaging in most activities on June 28, 2011, and were dissolved and replaced by Successor Agencies (SAs) on February 1, 2012. Prohibited activities included executing new contracts or renewing existing contracts, transferring money or property to the entity that created the RDA, and making any payments that did not meet statutory criteria.
- Each SA is governed by a seven-member Oversight Board with two city appointees, two county appointees, one K-12 appointee, one Community College appointee, and one special district appointee. The special district appointee represents the special district with the largest share of property tax revenue within the boundaries of the former RDA, as determined by the county auditor-controller.
- Under the oversight of the Oversight Board and the Department of Finance (DOF), the SAs use the property tax revenue formerly payable to the RDAs to retire the RDAs' debts in biannual installments. Any property tax remaining after these payments is distributed to the affected taxing entities (ATEs). The ATEs are the city, the county, the K-14 schools, and the special districts that are located in the same Tax Rate Areas as the former RDA.
- When an RDA's debts are fully retired, the SA and the Oversight Board will be dissolved, and the ATEs will receive the entirety of the property tax revenue formerly received by the RDAs.

Cash Flows - The Redevelopment Property Tax Trust Fund (RPTTF) and the Redevelopment Obligation Retirement Fund (RORF)

- In each county treasury, an RPTTF has been established for each former RDA. Twice each year the county treasurer deposits into the RPTTF all property tax revenue that the county auditor-controller determines would have been payable to the RDA based on the assessed valuation changes in the former RDA's project areas.
- The property tax that the Oversight Board and DOF determines is needed by the SA to pay the RDA's debts is transferred to the RORF. The property tax not needed for RDA debt payments is transferred from the RPTTF to the affected taxing entities (ATEs) that are located in the same tax rate area of the former RDA.
- The county auditor-controller also distributes from the RPTTF to the ATEs those property tax revenues to which the ATEs are entitled pursuant to negotiated and statutory passthrough payment agreements. Often, these are respectively referred to as pre-AB 1290 and AB 1290 passthrough payments, for the legislation that was enacted in 1993 that created statutory passthrough payment formulas for RDA project areas that were created or amended after December 31, 1993.
- The RPTTF is the repository for all property tax that the RDA would have received if not for the dissolution. The RORF is basically the checking account from which the SA pays those RDA debts that meet the statutory criteria for payment.
- This is a significant change from pre-dissolution law, wherein the RDA was solely responsible for both determining what obligations to pay, and for making pre-AB 1290 and AB 1290 passthrough payments to the ATEs.

The Recognized Obligation Payment Schedule (ROPS) Process

- Statute requires the auditor-controller to distribute property tax revenues in the following order:
 - AB 1290 and pre-AB 1290 passthrough payments.
 - Tax allocation bond payments.
 - Revenue bond payments, if revenues are insufficient for those payments and property tax revenues were previously pledged as a backstop.
 - All other approved Enforceable Obligations.
 - The SA's administrative budget.
 - Any remaining funds are distributed to the ATEs based on their property tax share in the former RDA's Tax Rate Area. These are the "residual" passthrough payments.
- The former RDA's debts may exceed the available property tax revenues in a given ROPS period. If the auditor-controller and the State Controller's Office agree this situation exists, statute requires the auditor-controller to make up the shortfall as follows:
 - First, by reducing the residual passthrough payments.
 - Second, by reducing the SA's administrative budget.
 - Third, by reducing AB 1290 and pre-AB 1290 passthrough payments that the recipient ATEs previously subordinated to debt service payments.
 - If a shortfall still exists, tax allocation bonds have payment priority. Next are revenue bond payments followed by all other Enforceable Obligations.

Due Diligence Reviews

- SAs were required to submit to their Oversight Boards and DOF two Due Diligence Reviews, performed by a licensed accountant. The Due Diligence Reviews were first submitted to the Oversight Board for its review and approval. They were then submitted to DOF for final review and approval.
 - The first Due Diligence Review identified all cash assets in the RDA's Low and Moderate Income Housing Fund (LMIHF) that were either (1) shifted to the entity that created the RDA between 1/1/11 and 6/30/12, or (2) that were not encumbered by an Enforceable Obligation. It is commonly referred to as the LMIHF Due Diligence Review.
 - The LMIHF Due Diligence Review was due to DOF on 10/15/12.
 - The second Due Diligence Review identified all other fund assets of the RDA that that were either (1) shifted to the entity that created the RDA between 1/1/11 and 6/30/12, or (2) that were not encumbered by an Enforceable Obligation. It is commonly referred to as the OFA Due Diligence Review.
 - The OFA Due Diligence Review was due to DOF on 1/15/13.
 - As part of its review, DOF in many cases exercised its statutory authority to increase the amount of unencumbered assets or improperly transferred assets identified in the Due Diligence Reviews. These adjustments were based on our review of the underlying financial statements.
 - SAs were allowed to appeal DOF decisions regarding their Due Diligence Reviews via the Meet-and-Confer process.

Due Diligence Reviews

- SAs were required to remit to the auditor-controller all unencumbered or improperly transferred cash assets identified in the DOF-approved Due Diligence Reviews within five days of receiving DOF's decision. If the SA chose to appeal that initial decision via the Meet-and-Confer process, the SA was required to remit the identified sums to the auditor-controller within five days of receiving DOF's Meet-and-Confer decision.
- County auditor-controllers were required to distribute the Due Diligence Review receipts to the ATEs based on each entity's property tax share within the Tax Rate Areas encompassed by the RDA's project areas.
- Statute provides the following penalties for failure to remit the ordered Due Diligence Review amounts:
 - If the amounts in question are in the possession of the city or county that created the RDA, or were passed through by those entities to a third party, DOF can order the Board of Equalization to withhold a corresponding amount of sales and use tax revenue from the city or county. The withheld sums are then distributed to the ATEs.

DOF has held the imposition of this penalty in abeyance pursuant to a Sacramento Superior Court ruling.

- If the amounts in question are in the possession of the SA, or were passed through by the SA to a third party, DOF can order the withholding of a corresponding amount of property tax revenue from the SA on subsequent ROPS'. The withheld sums are then distributed to the ATEs.

Findings of Completion, and the Associated Benefits and Responsibilities

When an SA has satisfied its Due Diligence Review obligations, and has remitted to the county auditor-controller any sums required pursuant to the “July True-Ups”, DOF is required to issue the SA a Finding of Completion. The Finding of Completion confers the following benefits and responsibilities:

Loan Repayments

- The SA may create an Enforceable Obligation for the repayment of loans that were issued to the RDA by the establishing entity more than two years after the RDA was created.
- The Oversight Board must first determine the loan was made for a valid purpose.
- The repayment on each ROPS is capped at 50 percent of the increase in the residual passthrough payments in 2012-13 and the most current fiscal year for which complete data is available. Repayments on ROPS 14-15 A are based on 50 percent of the increase between the residual passthrough payments on ROPS II and III (fiscal year 2012-13) and on ROPS 13-14 A and 13-14 B (fiscal year 2013-14).
- DOF has added a loan repayment calculator to its website to assist with calculating the maximum repayment amount.
- Loan repayments must be made according to an Oversight Board-approved “defined schedule over a reasonable term of years”. The loan repayment interest rate shall be the current Local Agency Investment Fund (LAIF) rate in effect when the loan repayment is first added to the ROPS.
- Statutes requires that 20 percent of the loan repayment on each ROPS be deposited in the Low and Moderate Income Housing Asset Fund, to support low-mod housing activities in the city or county that created the RDA.

Findings of Completion, and the Associated Benefits and Responsibilities

Expenditure of Certain “Stranded” Bond Proceeds

- The dissolution statutes generally prohibit the expenditure of the proceeds from bonds issued by the RDA prior to 1/1/11, if those proceeds were not encumbered by an Enforceable Obligation by June 28, 2011. However, upon receipt of a Finding of Completion, the SA may expend these “stranded” bond proceeds under the following conditions:
 - It receives Oversight Board approval.
 - The proposed expenditures are in accord with the bond covenants.
- The proposed expenditure must be placed on the ROPS.
- The proceeds of bonds issued by the RDA after 12/31/10 may only be expended to defease the underlying bonded indebtedness.

Preparation of the Long Range Property Management Plan

- Within six months of receiving a Finding of Completion, the SA is required to submit to DOF an Oversight Board-approved Long Range Property Management Plan.

Long Range Property Management Plans

The Long Range Property Management Plan (LRPMP) details how the SA will dispose of the RDA's real property assets. With certain exceptions for properties that serve a governmental purpose, SAs may not dispose of any RDA real property outside of the LRPMP. The LRPMP can dispose of the RDA's real property as follows:

1. Sell it to a third party (i.e. an entity other than the one that created the RDA). Under this scenario the sales proceeds will generally be distributed to the ATEs. Exceptions may apply if the property was purchased with the proceeds of bonds that have not yet been defeased.
2. Use the property to fulfill an Enforceable Obligation. Generally, under this scenario the property will be retained by the SA and used in accordance with the Enforceable Obligation's contractual requirements. Generally, no compensation will be provided to the ATEs.
3. Transfer the property to the entity that created the RDA for a governmental use, with no compensation provided to the ATEs. This would apply to properties such as police or fire stations, libraries, civic administration buildings, or certain parking lots.
 - Parking lots may qualify as governmental purpose properties if (1) they are exclusively reserved for government use (e.g. corporation yards or access-controlled parking facilities), or (2) if they were (a) funded by voter-approved assessments such as those levied by Business Improvement Districts, (b) are restricted to parking use, and (c) any parking revenues are restricted to use for maintenance of the parking lot or for service of the debt.
4. Transfer the property to the entity that created the RDA, so it may be used in accordance with the RDA's redevelopment plan, or with a community plan or a five-year implementation plan. Under this scenario, the recipient entity would negotiate a compensation agreement with each ATE.

Long Range Property Management Plans

- If an SA but does not yet have an approved LRPMP, the Oversight Board may still authorize the SA to transfer a governmental purpose property to the appropriate public entity. These Oversight Board actions are subject to DOF review and approval. See HSC section 34181 (a) for more detail.
 - Property transferred pursuant to this provision must currently be used for a governmental purpose. If the property is to be transferred for a future governmental purpose, that transfer must happen pursuant to the LRPMP.
- The deadline for the Oversight Board and DOF to approve an LRPMP is December 31, 2014. If the LRPMP has not been approved by this date, the SA must dispose of the RDA property via the process set forth in HSC section 34177 (e).

Long Range Property Management Plans

What does DOF look for when reviewing LRPMPs?

- Does the LRPMP list the estimated current value of each property as required by HSC section 34191.5 (c) (1) (D)?
- When a property is to be transferred for a governmental purpose, is that purpose governmental in nature?
 - Governmental purposes are listed in HSC section 34181 (a). However, the list is not exhaustive (e.g. allowable types of parking lots are not included).
 - LRPMPs can call for property to be transferred for a future governmental purpose. In other words, the property to be transferred need not currently be used for a governmental purpose.
- When a property is to be provided to the entity that created the RDA, does the LRPMP (1) specify compensation agreements will be negotiated with the ATEs, and (2) does the LRPMP specify the property will be used pursuant to the redevelopment plan, the recipient entity's general plan, community plan, area plan, or other specific plan, or a five-year infrastructure plan?
 - The LRPMP need not contain the actual compensation agreements. These will be negotiated by the recipient entity with the ATEs, and are subject to neither Oversight Board or DOF review.
- When a property is to be used in fulfillment of an Enforceable Obligation, is the proposed use in accordance with the underlying contractual requirements?
- When a property is to be sold to a third party, does the LRPMP specify the resultant revenues will be provided to the county auditor-controller for distribution to the ATEs?

Long Range Property Management Plans

What happens after the LRPMP is approved?

- If the LRPMP calls for a property to be used for a governmental purpose, the Oversight Board will ensure the property transfers as specified. DOF has no role in this process.
- If the LRPMP calls for a property to be transferred to the entity that established the RDA, the Oversight Board will ensure the property transfers after the recipient entity has provided the agreed-to compensation to the ATEs. DOF has no role in this process.
- If the LRPMP calls for the property to be used in fulfillment of an Enforceable Obligation, the Oversight Board will ensure the property transfers as specified. DOF has no role in this process.

Long Range Property Management Plans

What happens after the LRPMP is approved (cont'd)?

- If the LRPMP calls for the property to be sold to a third party, the following will occur:

For direct sales between the SA and the third party, or sales executed through a real estate broker

- The Oversight Board will approve a purchase and sale agreement. Multiple agreements can be approved in one Board action.
- The agreement(s) will be forwarded to DOF for review and approval.
- DOF will ensure that (1) the agreement comports with the LRPMP, and (2) that the sales price comports with the property's value as estimated in the LRPMP.
- The property sale(s) may proceed once DOF has completed its review.

For sales executed via an auction process

- The Oversight Board will approve an auction services agreement and/or an auction commission agreement. The agreement(s) shall list a minimum reserve price for each property.
- When the auction process has started, the SA should provide the Oversight Board and DOF with access to the online property identification number so that due diligence documents and the ongoing sale/bid process can be reviewed and viewed.
- If the auction achieves at least the reserve price, the transaction may close without further approvals from the Oversight Board or DOF.

RDA Debt Refinancing

Upon approval of the Oversight Board and DOF, an SA may refinance RDA debt. Refinancings are usually allowed under the following circumstances:

- To reduce principal and interest costs of RDA debt, and to eliminate bullet payments and debt service spikes.

Debt refinancings must meet the following criteria:

- The debt that is being refinanced must be an Enforceable Obligation as determined by the Oversight Board and Finance.
- The total principal and interest costs of the new debt must not exceed the total principal and interest costs of the existing debt, except for the purpose of (1) establishing necessary debt service reserves, and (2) paying related costs of issuance.
- The financing must not include bullet payments, debt service spikes, or variable interest rates.

Please note the following:

- The Successor Agency must make use of an independent financial advisor to develop the refinancing proposal.
- Once the Oversight Board has approved the refinancing proposal, the approval action must be submitted to DOF for review and approval. DOF has five days to approve the Oversight Board action, or to notify the Oversight Board that it is extending its review time to 60 days.

RDA Debt Refinancing

RDA debt refinancing can benefit the SA and the ATEs:

- Refinancings that reduce principal and interest costs will allow cities, counties, schools, and special districts to more quickly receive a larger share of the property tax revenues from within the project areas of the former RDAs.
- Refinancings that eliminate bullet payments and spikes will ensure SA are not faced with debt service payments that cannot be absorbed within their biannual property tax allotments, thereby preventing possible defaults.