

Successor Agency of the Former Redevelopment Agency

Redevelopment Dissolution

Per AB 26, enacted on June 28, 2011, California Redevelopment Agencies (RDA) were dissolved on February 1, 2012, and their rights, powers, duties, and obligations were vested in the successor agencies. In January 2012, the City Council designated the City of San Diego to serve as the former RDA's Successor Agency for purposes of winding down its operations; making payments on enforceable obligations; and liquidating the Agency's unencumbered assets for distribution to the County, City, school districts, and other local taxing entities. The City also chose to serve as the Housing Successor Entity and retain the former RDA's affordable housing assets and assume related responsibilities. An additional dissolution law—AB 1484—was passed on June 27, 2012. AB 1484 took immediate effect and required successor agencies to learn and implement significant rules of conduct and includes deadlines and severe late penalties.

A large part of winding down activities includes making payments on enforceable obligations of the former RDA. Enforceable obligations are generally defined to include several categories, such as bond obligations and written contracts for specific performance with parties that are not the sponsoring entity, such as the City. Per AB 26, successor agencies are required to prepare Recognized Obligation Payment Schedules

Successor Agency – A separate legal entity from the City, the Successor Agency is responsible for winding down the affairs for the former RDA. The budget is primarily funded with the RPTTF 3% administrative cost allowance.

Successor Housing Entity – The same legal entity as the City, the Successor Housing Entity assumes the affordable housing assets and related responsibilities of the former RDA. Funding for administrative support is derived from the Low- and Moderate-Income Housing Fund.

(ROPS) for enforceable obligations allowed to be made during each applicable six-month period (January 1-June 30 and July 1-December 31) until all obligations are fulfilled. AB 26 includes restrictions on what constitutes an enforceable obligation and each ROPS must be approved by the:

- City Council as the Successor Agency approval body;
- Successor Agency Oversight Board; and
- State Department of Finance (DOF).

Sources of funds for making payments on ROPS include the Redevelopment Property Tax Trust Fund (RPTTF), formerly known as tax increment; bond proceeds; other revenue (such as rental income); and the housing fund. RPTTF is distributed by the County Auditor and Controller (CAC) in January and June for each related ROPS period. AB 26 also provides for a limited ad-

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ministrative cost allowance equal to 3% of the Successor Agency's distribution of RPTTF to pay enforceable obligations on each ROPS.

Successor Agency Budget Allocation

The City has a consulting agreement with Civic San Diego (CivicSD) to carry out the redevelopment wind down function. This includes: administering existing contracts; processing payments; preparing ROPS for each 6-month period; coordinating with the DOF; and providing project management, property management, and various other duties as needed for the wind down. As shown below, CivicSD accounts for about \$3.5 million or 54% of the total \$6.5 million FY 2015 Proposed Budget for the Successor Agency.

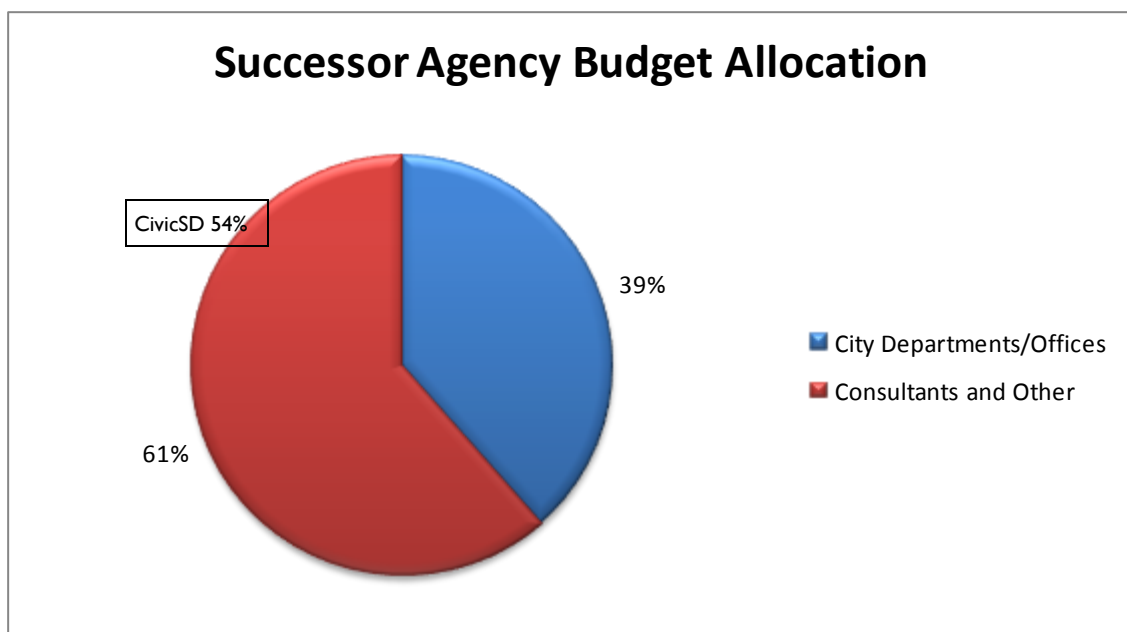
In addition to CivicSD, staff from several City departments provide legal, financial and accounting, and administrative services for the Successor Agency to facilitate dissolution and wind down activities, such as the

City Attorney's Office, Office of the City Comptroller, Financial Management, and Economic Development. These services account for \$2.5 million or 39% of the Successor Agency's FY 2015 Proposed Budget. The remaining \$516,000 or 8% is allocated for legal and other consultants, the Oversight Board's legal counsel, and a \$25,000 contingency fund.

FY 2015 Proposed Budget

The FY 2015 Proposed Budget for the Successor Agency and Successor Housing Entity are based on projected expenditures to be made as part of ROPS 6 (July 1 – Dec. 31, 2014) and ROPS 7 (January 1 – June 30, 2015). It is important to understand that all ROPS and the related Successor Agency budgets are subject to the approval of the Oversight Board and State DOF.

The Successor Agency budget for ROPS 6 was approved by the City Council on February 10, 2014. However, the DOF's preliminary determination on ROPS 6, received April 14, 2014, denied numerous line items



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FY 2015 SUCCESSOR AGENCY BUDGET (BASED ON ROPS 6 AND ROPS 7)			
	ROPS 6 (July - Dec. 2014)	ROPS 7 (Jan. - June, 2015)	FY 2015 TOTAL
EXPENDITURES (Administration and Project Management)			
City Department/Office			
City Attorney's Office	\$ 475,000	\$ 475,000	\$ 950,000
Office of the Comptroller	175,000	175,000	350,000
City Treasurer's Office	40,000	40,000	80,000
Debt Management	75,000	75,000	150,000
Economic Development	160,500	160,500	321,000
GGSB & SAP Allocations	160,000	160,000	320,000
Legislative Clerk	25,000	25,000	50,000
Real Estate Assets	136,000	136,000	272,000
Subtotal City Department/Office	\$ 1,246,500	\$ 1,246,500	\$ 2,493,000
Consultants			
CivicSD	\$ 1,728,500	\$ 1,728,500	\$ 3,457,000
Legal Consultant	120,000	120,000	240,000
Oversight Board Legal Counsel	38,000	38,000	76,000
Other Consultants	100,000	50,000	150,000
Contingency	25,000	25,000	50,000
Subtotal Consultants	\$ 2,011,500	\$ 1,961,500	\$ 3,973,000
TOTAL EXPENDITURES	\$ 3,258,000	\$ 3,208,000	\$ 6,466,000
FUNDING SOURCES			
Administrative Fee from RPTTF (3%)	\$ 1,824,301	\$ 650,000	\$ 2,474,301
RPTTF Distributions (for Project Management of Enforceable Obligations)	1,461,500	1,461,500	2,923,000
Other Funding Sources	-	1,096,500	1,096,500
TOTAL FUNDING SOURCES	\$ 3,285,801	\$3,208,000	\$ 6,493,801

which impacts the 3% administrative cost allowance provided from RPTTF. Successor Agency staff are scheduled to meet and confer with the DOF on May 7, 2014 to appeal the preliminary findings, and the final determination is anticipated to be received in mid-May.

The budget for ROPS 7 will be developed and brought to Council and the Oversight Board for approval in September 2014. To develop the FY 2015 Successor Agency budget, staff based projections for ROPS 7

budget on ROPS 6.

The FY 2015 Proposed Budget shown above is based on a recent assessment provided by CivicSD staff. This budget totals about \$6.5 million, and includes \$3.6 million for administrative activities conducted by both City staff, CivicSD, and other consultant. In addition, the proposed budget provides \$2.9 million for project management services, primarily conducted by:

- \$1.7 million - CivicSD;

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- \$700,000 - City Attorney's Office;
- \$241,000 - Economic Development Department; and
- \$290,000 - Legal and Other Consultants.

Revenue included in the FY 2015 Proposed Budget totals about \$6.5 million with a projected surplus of about \$28,000. Primary funding sources for the Successor Agency Budget include the projected 3% cost allowance from RPTTF of \$2.5 million; RPTTF distributions of \$2.9 million for project management of enforceable obligations; and \$1.1 million in other funding sources, such as rental income and bond proceeds.

Issues to Consider

Ongoing High-Level of Risk to City's General Fund

As noted in our Review of the FY 2015 Proposed Budget (IBA-14-15), the Successor Agency faces ongoing challenges in conducting redevelopment dissolution and wind-down activities for the former Redevelopment Agency. The risk to the City's General Fund continues to be relatively high. It will be important for the Mayor, Council, and staff to continue to monitor and address such issues that pose a high-level of risk to the General Fund.

ROPS 6 and Future ROPS - The DOF continues to challenge and reclassify items in the ROPS, as evidenced most recently by the preliminary response for ROPS 6, which denies numerous line items. For example, the DOF disputes the reinstated loan agreement relating to invalidated debt under the Cooperation Agreement for Convention Center Phase II (line item 84) (see IBA-14-

06 for more information on the reinstated loan agreement) with a total value of \$226.6 million.

Additionally, one potentially big ticket item that has been denied in the DOF's preliminary response is the Valencia Business Park project (line item 221) in the amount of \$350,000. If the project contemplated by the original U.S. Department of Housing and Urban Development (HUD) Section 108 loan documents cannot be accomplished without further delay, HUD could demand that the City repay about \$6 million (for the original loan plus interest).

Successor Agency staff are scheduled to meet and confer with the DOF for ROPS 6 on May 7, 2014 to appeal the preliminary findings, and the final determination is anticipated to be received from the DOF in mid-May.

Litigation - The DOF essentially has the final word, and when there are disputes between successor agencies and the DOF, the only recourse is to file a lawsuit in Sacramento. The City has about 10 lawsuits pending for various items that have been denied by the DOF on previous ROPS and other items. However, the DOF has been largely successful in numerous lawsuits in Sacramento so far, where the courts have deferred to the DOF's interpretation of the dissolution laws whenever there is a gap or ambiguity.

Future "Clawback" - In addition, although not anticipated in FY 2015, the State Controller could be expected to claw back an additional \$23.4 million from the City as part of a future asset transfer review, likely to occur in the fall of 2015.

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Community Development Block Grant (CDBG) Repayment Agreement - As part of a negotiated settlement with HUD to resolve adverse findings from a HUD Office of the Inspector General Report (December 2008), the former RDA had an agreement with the City to repay \$78.8 million in CDBG funds over a ten-year period beginning in FY 2010. The payments escalate significantly over the latter half of the agreement, and the outstanding balance on the agreement is about \$53 million.

The 2011 payment of \$3.3 million was clawed back as part of the Non-Housing Due Diligence Review. Payments made for 2012 and 2013 totaling \$7.8 million could be at risk in the future clawback. This agreement was denied as an enforceable by the DOF on ROPS 5. Successor Agency staff are working with HUD and the DOF to resolve this issue.

3% Cost Allowance from RPTTF - Staff have noted continuing challenges regarding available funds for administration of dissolution and wind down activities. This is particularly true for the odd year period which generally has a lower dollar amount of enforceable obligations, since the allowance is based on a percentage. For example, staff anticipate that the \$1.8 million in the administrative cost allowance from ROPS 6 is likely to cover Successor Agency administrative costs. However, staff are projecting only about \$650,000 in administrative cost allowance from RPTTF for ROPS 7 (for the period January-June 2015), which would mean that about \$1.0 million in other revenues would be required to cover the balance.

Long-Range Property Management Plan

The City Council and the Oversight Board approved the Long-Range Property Management Plan on April 21 and April 25, respectively. The plan was required by AB 1484 to provide for the disposition and use of the former Redevelopment Agency's non-housing real properties. Successor Agency staff developed the plan considering the best interest of both the City and Successor Agency. AB 1484 provided limited guidance for development of the plan as well as timelines and procedures for resolving any disputes. If the DOF does not approved the plan by January 1, 2015, then the provisions of AB 26 will take over. This essentially requires a fire sale of assets, which is not in the best interest of the Successor Agency, City, and other local taxing entities.

As with all issues relating to redevelopment dissolution, the Successor Agency will have to wait and see how the DOF responds and potentially will have to consider future amendments or adjustments to the plan, which may not be as advantageous to the City. Receiving the DOF's approval of the plan will be a big step forward in getting back on track with some former redevelopment projects that are high priorities for communities.