



City of Montebello

Redevelopment Status Report

January 25, 2012



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Overview

- Summary of Redevelopment Legislation
- Redevelopment after Feb 1, 2012
- Impact on Cities & the Private Sector
- Initiatives in Process: Redevelopment 2.0
- Governor's Budget



Summary of Redevelopment Legislation



Outcome of CRA v. Matosantos

- Redevelopment ended on December 29, 2011 with Court's decision
- Assembly Bill 1X 26 ("AB 26") was upheld as constitutional by the Court, dissolving redevelopment agencies as of Feb. 1, 2012*
- Simultaneously, Assembly Bill 1X 27 ("AB 27") was struck down as unconstitutional, eliminating the "pay-to-play" option to continue
- Most Agency activities are prohibited:
 - No new debt, contracts, or other obligations can be entered into, including restructuring, amendments, renewals, etc.
 - Only payments per adopted Enforceable Obligation Payment Schedule ("EOPS") are allowed (e.g. bond debt service payments, limited administrative costs)



Redevelopment Agency "Can"s & "Can't"s (Prior to February 1, 2012)

Agencies Can:	Agencies Can't (partial list):
Make payments and perform obligations per EOPS:	• Incur new debt or restructure existing debt
 Bonds (incl. set aside reserves) 	Make loans or grants
 Loans borrowed by the Agency Payments required by Fed or state gov't or for employee pension obligations Judgments or settlements Legally binding and enforceable agreements or contracts that are "not otherwise void as violating 	 Enter into contracts or amend existing obligations
	 Renew or extend leases or other agreements
	Transfer or dispose of assets
 the debt limit or public policy" Contracts for administration or operation of the 	Acquire real property
 Agency Preserve all assets and records and minimize Agency obligations and liabilities 	
 Cooperate with Successor Agency and auditing entities 	
 Avoid triggering defaults under Enforceable Obligations 	



Redevelopment after Feb 1, 2012

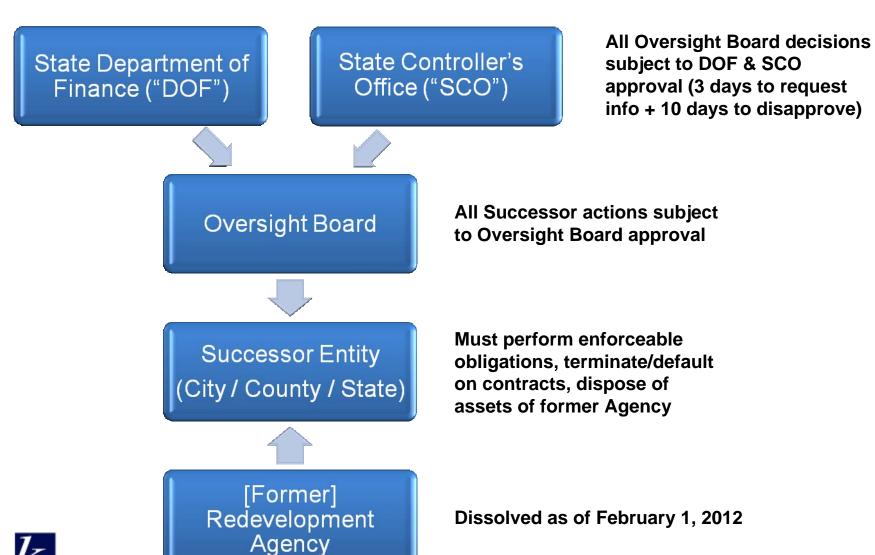


Successor Roles & Responsibilities

- Cities that had Agencies may declare to become "Successor Agencies" responsible for administering enforceable obligations and liquidating Agency property beginning Feb 1, 2012
- "Oversight Boards" composed of mixed government officials have control over the process
 - Still to be assembled may be a challenge
 - Representatives have diverse agendas, have not historically operated cooperatively achieving consensus will not be easy
- Department of Finance ("DOF") and State Controller's Office ("SCO") have 100% veto power over actions by Successor Agencies and Oversight Boards



Successor Entity Hierarchy





Oversight Board Composition & Successor Entity Alternatives

- Should the City elect to serve as Successor Agency, the new Oversight Board will be composed of one member appointed by each of the following:
 - City Mayor
 - County Board of Supervisors
 - Largest special district by property tax share
 - County Superintendent of Education
 - Chancellor of the California Community Colleges
 - Member of the public appointed by County Board of Supervisors
 - Member representing the employees of the former Agency appointed by City
 Mayor or Chair of the Board of Supervisors
- If City elects NOT to become Successor Agency, entity alternatives include:
 - State of California or a special district (likely no experience in redevelopment)
 - County



Oversight Board: Your New Boss

Actions requiring approval from Oversight Board:

- a)The establishment of new repayment terms for outstanding loans
- b)Refunding of outstanding bonds or other debt of the former Agency
- c)Setting aside of amounts in reserves as required by indentures
- d)Merging of project areas
- e)Continuing the acceptance of Fed & State grants and other financial assistance, where assistance calls for matching funds greater than 5%
- f)Retaining assets for future redevelopment activities
- g)Establishment of the ROPS
- h)Entering into City-Agency agreements
- i)Pledging / encumbering property tax revenues



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Key Steps for Cities

Deadline	Necessary/Recommended Action	
Jan 13, 2012	Resolution for City to serve as Successor Agency (optional)	
Feb 1, 2012	 (Agency dissolution date) By Jan 31, review, revise, and re-adopt EOPS through 5/1, 2012 (recommended through 6/30). Send to SC, DOF, post on website Create Redevelopment Obligation Retirement Fund Prepare draft Successor Agency administrative budget Resolution to serve (or not) as Successor Housing Agency Consider asset disposition strategies per AB 26 	
Mar 1, 2012	Adopt Recognized Obligation Payment Schedule ("ROPS")	
Apr 1, 2012	Report to County Auditor-Controller on administrative budget and whether funds available to Successor Agency are sufficient to fund payments for next 6 months	
Apr 15, 2012	ROPS sent to SCO & DOF for approval	
May 1, 2012	(Deadline to form Oversight Boards – City can take lead) ROPS becomes effective (1st ROPS in place until June 30) Successor Agency makes payments according to approved ROPS	

Payment Waterfall – Distribution of Revenue from County Trust Fund

1)

County auditor-controller administration costs

2)

Pass-through payments to taxing entities

3)

Successor Agency ROPS payments

4)

Successor Agency administration costs

5)

Regular property tax to taxing entities



Successor Housing Entity Alternatives

City can elect to retain housing assets and functions, or else they can be transferred to the local housing authority, if any, or to HCD

Pro's	Con's
 Property acquired with Low-Mod funds transfers to Successor Housing Agency 	 Unencumbered Low-Mod Housing Fund will go to County Auditor- Controller
 Housing clean-up legislation (SB 654 - Steinberg) likely to be successful before "Redevelopment 2.0" legislation 	 Continue affordability and other obligations Assume replacement housing obligation Perform under relocation plans Continue monitoring low/mod housing
	 No funding for administrative costs (previously covered by Low-Mod Housing Fund)



Impact on Cities & the Private Sector



What the Outcome Means for CA Cities

- Many local governments will be in depleted financial condition, which will have impact on operations and General Fund
- Cities are anticipating potential staffing and service cut-backs and negative credit impacts (credit ratings already affected)
- Loss of City jobs funded by Agency \$\$'s, including planning & public safety (LA County Sheriff's Dept \$26M in patrol, detectives & other services at risk)
- Unemployment of thousands from project-based layoffs in over 400
 Redevelopment Agencies (per CRA/LA, 74K const. jobs & 40K perm. jobs)
- Litigation expected due to chaotic/unclear dissolution process. Challenges to prior property transfers & related title/lender issues are anticipated.
- Uncertainty related to reporting requirements, administrative budgets, future obligations, and existing Agency agreements
- Cities will have to consider strategic asset transfers and alternative financing tools, such as lease/lease-leaseback, EB-5 financing, and formation of economic development corporations



It Has Already Hit the Fan – Moody's Downgrade (1/17/12) & Fitch Negative Rating Watch (1/24/12)

- Moody's has downgraded \$11.6 billion in tax allocation bonds (those rated Baa2 and above) by one notch, noting:
 - [AB 26] establishes an initial allocation of property tax revenues that conflicts with existing bond documents
 - Effectiveness of the resolution process on a timely basis is uncertain
 - Timeframe for property tax disbursements is more restricted now,
 potentially resulting in mismatched receipt/disbursement schedules
 - Audit requirements and sheer complexity may result in unexpected payment delays as legal and administrative clarification is pursued
 - All tax allocation ratings on review for further downgrade without legislation implementation to preserve timely debt-service payments
- Fitch followed suit, placing all California TABs on Rating Watch Negative, citing similar concerns



Private Sector Impact – What to Expect

- Events still unfolding and site-specific analysis required on a deal-by-deal basis
- Appetite for public agency contributions to transactions diminished, particularly for non-sales tax generators – Available incentives severely limited
- Will need to structure reimbursement agreements with local public agencies for expedited permit processing – Development fees will likely increase
- Redevelopment cutbacks will reduce City Staff available for entitlements and other project processing – Contract planners will become common
- For new projects potential other tools include lease/lease-back, EB-5 financing, and formation of economic development corporations
- Community Facilities District financing for private/public infrastructure (without public financial contribution to assessment payments unless from grant sources)
- Agency-owned property and notes "fire sale" process unclear as to how various
 AB 26 required successor and oversight entities will work together
- Litigation on performance, title, tax payment issues expected. Modifications to existing RDA project agreements will need approvals from Oversight Committee.
- AB 26 clean-up legislation and "next generation RDA" solution sorely needed

Other Impacts & Unknowns

Bond and note issues:

- Tax exemption issues with unused bond proceeds
- No express authority to issue new debt or validation actions permitted
- Potential impairment of contract claims under State or Federal Constitution (Cerritos)

Other Agency agreements

- Agency conditions precedent (waivable?)
- Agency non-monetary obligations, e.g., design review, financing plan approval
- Agency rights, e.g., tenant mix approval, maintenance obligations, living wage obligations, rights of reverter

Agency leases (as tenant and landlord)

- No modifications, extensions, etc.
- Successor Agencies may try to downsize (as tenant), default on under-market leases (as landlord), or sell underlying fee (as landlord)

Sale/transfer of Agency assets

- Will surplus property disposition rules apply?
- Can RDAs transfer public assets to cities if no agreement exists?
- Other questions on good title, packaging of parcels, Polanco Act availability, effect on market dynamics and property values

Technical Problems with AB 26 (partial list)

- Contracts appurtenant to a construction contract Successor Agencies obligated to honor design contracts for projects not to be built
- Source of funding for bond payments through May 16, 2012 Risk of widespread defaults if property tax funds are held by County until May
- Implied pooling of distinct security sources Pooling at the County (Redevelopment Property Tax Trust Fund) and Agency level may affect credit and investor ability to discern debt-service coverage ratios for distinct securities
- Use of bond proceeds and federal tax law limitations Provisions on remitting Agency funds to the County, disposing of Agency assets, and using bond proceeds to defease certain bonds contravenes Fed tax law limitations on use of tax-exempt bond proceeds
- Interagency loans Cooperation agreements invalidated. Some Agencies borrowed from City General Fund as cheaper alternative to loans from outside sources
- Membership in JPAs For bond deals that are directly part of RDA projects, unclear whether Successor Agencies will be required to honor those obligations
- Municipal employment 120-day required notice will stress available admin costs, and bumping rights effectively preclude maintaining staff continuity on critical projects



Initiatives in Process: *Redevelopment 2.0*



Redevelopment Initiatives in Process

- At this point, the CRA and League of Cities are working with key legislators and other entities on a 2-part legislative strategy:
 - 1) SB 659 (Padilla): Immediate legislation to delay timeline on previous page to April 15, 2012, to provide a "time-out" for Cities to perform required analysis and for legislative team to progress on #2 below
 - 2) Comprehensive legislation to produce a compromise that would allow RDA to exist in some different format ("redevelopment light") deadline would be May 1
- Independently, nine southern CA cities recently jointly filed a motion for a stay on AB 26 on the grounds that it violates State and Federal law – hearing is scheduled for January 27, 2012



Support for SB 659: Coalition for Jobs & Neighborhood Renewal*

<u>Labor</u>

American Federation of State, County and Municipal Employees
Service Employees International Union, California
San Bernardino Public Employees
Association
San Luis Obispo County Employees
Association
Santa Rosa City Employees Association
Glendale City Employees Association
Organization of Sacramento Municipal Utility
District Employees

Public Safety

California Police Chiefs Association

Business California Chamber of Commerce California Building Industry Association **California Building Owners and Managers** Association California Business Properties Association California Downtown Association California Main Street Alliance California Manufacturers and Technology Association American Institute of Architects, California Council Building Industry of Southern California **Los Angeles County Business Federation** National Association of Industrial and Office Properties, California Chapter

Valley Industry and Commerce Association

International Council of Shopping Centers

Business (cont.)

Greater West Covina Business Association San Gabriel Valley Economic Partnership Los Angeles Area Chamber of Commerce Chambers of Commerce Alliance Ventura and Santa Barbara Counties **Greater Riverside Chambers of Commerce Cerritos Regional Chamber of Commerce Highland Area Chamber of Commerce Downy Chamber of Commerce** Montclair Chamber of Commerce **Lodi Chamber of Commerce** San Pedro Chamber of Commerce **Yucca Valley Chamber of Commerce Fullerton Chamber of Commerce Redlands Chamber of Commerce** Redondo Beach Chamber of Commerce and Visitors Bureau **Downtown Long Beach Associates Downtown Sacramento Partnership Eureka Main Street Association** Fairfield Main Street Association Paso Robles Main Street Association **Playhouse District Association** The River District 3D Visions Allied Commercial Real Estate Alliance for a United Montebello **City Ventures** Deborah Murphy Urban Design and Planning Hall & Bartley Architecture and Planning The Ometeotl Group Santa Fe Land Planning Stockton Builders' Exchange

Business (cont.)

Todos Santos Business Association Tolar Manufacturing Company, Inc.

Housing

People's Self Help Housing Corporation Housing Authority of the City of Santa Barbara Habitat for Humanity of Southern Santa Barbara County

Community

American Legion Post 772 Banning Cultural Alliance Give Every Child A Chance Los Angeles Walks

Local Government

California Building Officials
City of Rancho Cucamonga
Muni Services
Three Valleys Municipal Water District

www.SaveCAJobs.com

^{*} Partial List

Governor's Budget



Redevelopment as a Source of Funds

State expects to gain ~ \$1.7 billion in 2011-12 from dissolution of Agencies* – Expected to reduce budget gap to \$9.2B from \$11B

- ~ \$1.05 billion to go to K-14 schools
- ~ \$700 million in pass through payments to counties, cities, and special districts
 - \$340 million to counties
 - \$220 million to cities
 - \$170 million to special districts



Brown's Grand Slam Budget

Cuts - \$4.2 billion:

- \$2.04 billion from Health & Human Services
- \$1.32 billion from Education
- \$840 million from other sources

Taxes - \$7.0 billion in revenue increases, including:

- Nearly \$5.0 billion in temporary tax increases for FY2012
 - Half-cent sales tax hike
 - Income Tax hike to the wealthiest (\$250K/year and up)
 - ➢ OR suffer "trigger cuts" in education, firefighting, wildlife protection, lifeguards (Brown's "No Gain Then Pain" Plan)
- Ballot in Nov 2012 more support than 2011's failed attempt

BUT – Taxing the wealthy makes the State's budget more unstable Sales tax already highest in the USA



2012 – Year of the Tax

- Loss of Redevelopment and related tax increment will pave the way for more ballot measures requesting local tax increases
- School districts will still need additional funds as a result of state budget cuts and will likely seek parcel tax increases
- In addition to Gov. Brown's proposed ballot measures, anti-Business Tax Measures that may go to CA voters in November:
 - The so-called "Split-Roll", which would exempt commercial properties from the shelter offered under Prop 13
 - Extending sales tax to some services
 - A 1% increase in most personal income taxes which would adversely affect some small business (sole proprietorships, LLC's)



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Separation of Transportation & Housing in State Reorganization

Proposed Changes to Business, Transportation, and Housing ("BTH") Agency:

- •Housing and business regulation functions would be merged with current State and Consumer Services Agency to create Business and Consumer Services Agency Within this new agency, the California Housing Finance Agency would be merged into the Department of Housing & Community Development
- •Economic development functions within BTH, such as the California Infrastructure Bank, would be moved to the Governor's Office of Economic Development
- •Only transportation functions would be left within BTH, to be renamed the Transportation Agency, including Caltrans, the California Transportation Commission, and the California High-Speed Rail Authority



What Now?

Redevelopment became too expensive, rules too complex, and leadership too ambiguous

- Too easy of a target for the State, as State Legislature and Governor are broke and RDA tax increment & asset pool too rich to not go after
- Not user friendly in political terms (blight, eminent domain, school impairment, etc.)
- Run by technicians and bureaucrats, not politicians never had a say at the table

Economic Development still a mandate for local government

- Cannot run a public sector service company without new revenues
- New revenues come from private sector investment and jobs generated by same

Next stage of Economic Development

Focus on job creation, urban infill, transportation, affordable housing, sustainability

New Tools

- Sales tax driven vehicles (sales tax increment)
- Lease/lease-back transactions with Site Specific Tax Revenue pledges
- General Fund guarantees (bleed-off features)
- Community Facilities Districts with reimbursements from new taxes (e.g. sales, TOT)

