ADOPT RESOLUTION TO APPROVE A RECOGNIZED OBLIGATION PAYMENT SCHEDULE

RECOMMENDATION

It is recommended that the Successor Agency to the former Redevelopment Agency of the City of Stockton (“Successor Agency”) adopt a resolution:

1. Approving the Recognized Obligation Payment Schedule (“ROPS”) for the period of July 1, 2018 through June 30, 2019, (Exhibit 1 to the Resolution) as required under Health and Safety Code section 34177 (o).

2. Authorizing the Executive Director to take necessary and appropriate actions to carry out the purpose and intent of the resolution.

Summary

The Successor Agency is required to submit an annual ROPS for each fiscal year. The ROPS for July 1, 2018 through June 30, 2019 (“ROPS 18-19”), is due by February 1, 2018.

The ROPS is an annual schedule of Successor Agency payment obligations for the upcoming fiscal year. Payments for bonds, loans, legal expenses, property maintenance, and administration are listed on the ROPS, and are subject to approval by the State Department of Finance (“DOF”) before the Successor Agency can receive Redevelopment Property Tax Trust Fund dollars (“RPTTF” - former tax increment). RPTTF can only be used to pay approved obligations listed on the ROPS.

This ROPS includes the maximum annual payment allowed to the City for loans it made to the former Redevelopment Agency. This year, the Successor Agency reduced its annual administrative budget to the minimum allowance of $250,000. Reducing the administrative budget allows excess RPPTF to be used for other obligations or be distributed to the taxing entities. This ROPS also includes a request for $2.5 million of RPTTF for one contamination litigation item. The case has made progress and should be resolved soon. If the resolution is favorable to the Successor Agency, the requested funds will be used for other approved obligations listed on the ROPS. The case is a liability of the Successor Agency; no general fund dollars are at risk. Any unused RPTTF will be distributed to the taxing entities through the ROPS annual process.

DISCUSSION

Background

Assembly Bills x1 26 and 1484 (collectively the “Dissolution Law”) dissolved all existing California redevelopment agencies and replaced them with Successor Agencies effective February 1, 2012.
The City of Stockton, elected to become the Successor Agency, and is responsible for winding down the affairs of its former redevelopment agency (Attachment A - Resolution No. 11-0251). Successor agencies are required to submit an annual ROPS by February 1 of each year. If an approved ROPS is not submitted by the due date, the City is subject to a civil penalty of $10,000 per day. In addition, the Successor Agency’s annual administrative cost allowance may be reduced by 25 percent. The administrative cost allowance is capped at three percent (3%) of the RPTTF distributed to the Successor Agency, less administrative costs and City loan repayments, in the preceding fiscal year. The minimum allowance is $250,000.

An Oversight Board is responsible for approving or directing the actions of the Successor Agency, and the Oversight Board’s actions are subject to review by the DOF. The Oversight Board consists of seven members representing the City, County, and taxing entities. Oversight Board members and the appointing agency are listed below:

- Paul Sensibaugh - San Joaquin County Board of Supervisors
- Shabbir Khan - San Joaquin County Board of Supervisors
- Jesus Andrade - Mayor of the City of Stockton
- Erin Mettler - Mayor of the City of Stockton
- Gary Lambdin - San Joaquin County Mosquito and Vector Control District
- Scott Anderson - San Joaquin County Office of Education
- Jeff Menge - Chancellor of the California Community Colleges

This Board will serve until July 1, 2018. The County Auditor-Controller is working to establish a consolidated board that will oversee all successor agencies within the County.

The annual ROPS must be approved by the Oversight Board, submitted to State and County offices, and posted online by February 1. The ROPS lists all enforceable obligations which include:

- Bonds. A reserve may be held when required by the bond indenture or when the next property tax allocation will be insufficient for the next payment due in the following half of the calendar year.
- Loans that are legally required to be repaid pursuant to a repayment schedule or other mandatory loan terms.
- Judgments or settlements entered by a competent court of law or binding arbitration decisions against the former redevelopment agency.
- Contracts or agreements necessary for the administration or operation of the successor agency, including agreements concerning litigation expenses related to assets or obligations, judgments and settlements, and costs of maintaining assets prior to disposition.
- Loans from the City to the former Agency, as approved by the Oversight Board and DOF.

In November 2015, the Oversight Board approved 51 City loans totaling $37.5 million in principal and interest. The DOF reviewed the loan agreements and supporting documentation and approved $23.8 million of the loans for repayment (Attachment B - City Loans). The remaining loans did not qualify under Dissolution Law or were denied due to the lack of signed loan agreements between the former Redevelopment Agency and the City. If appropriate documentation is located, the denied loans may be submitted to the DOF for additional review. The maximum payment amount for the City loans is
listed on the ROPS. This amount is limited by an annual payment calculation. Dissolution Law requires that twenty percent (20%) of each City loan payment be deducted and transferred to the Low and Moderate Income Housing Fund (“LMIHF”) for affordable housing.

In August 2016, the DOF approved the refunding of several Successor Agency debt obligations including the 2003 Housing Certificates of Participation, the 2004 Arena Bonds, and the 2006 Strong Neighborhood Initiative Bonds. The refunding successfully closed on November 3, 2016, and resulted in a Net Present Value savings of $22 million. The average annual savings is $2 million with a total savings of over $42 million. The refunded obligations were removed from the ROPS and the 2016 Bonds were added in their place. Savings will be distributed to the taxing entities, after obligations are paid, through the annual ROPS process.

Present Situation

Annual loan payments for the City loans are limited to one half (1/2) of the increase between the amount of excess tax increment distributed to the taxing entities in the current fiscal year and the 2012-13 base year. In Fiscal Year 2017-18 $10.1 million was distributed to taxing the entities, and no tax increment was distributed in the base year. Therefore, the City loan payments requested for Fiscal Year 2018-19 will be approximately $5 million.

The September 2018 and March 2019 payments for the 2016 Bonds total $7,463,509, and as required under the bond agreements, the Successor Agency is also requesting RPTTF for the September 2019 payment of $5,559,772. RPTTF for the latter payment will be reserved until the payment is due.

Other obligations listed on the ROPS include estimates for property maintenance, legal expenses, and the administrative budget. The Successor Agency is requesting the minimum annual allowance of $250,000 for administration. Agreements or contracts related to the maintenance and disposition of properties or litigation expenses related to assets or obligations are considered enforceable obligations and are not included in the administrative budget.

This ROPS includes $2.5 million for Agency v. Union Oil. We intend to bring the claims of Chevron (Union Oil is now Chevron) to an arbitration. Those claims include an allegation that the Agency has failed to fulfill obligations undertaken in a settlement agreement and that the failure results in an obligation to pay Chevron some amount of money, which they claim is about $2,000,000. The Agency has cross claims, but we need to be able to pay the full amount if required to do so. The amount listed on the ROPS should cover the claim and any related legal expenses.

Staff will return in January 2019 with a recommendation to adopt a ROPS for the next fiscal year. If changes are required prior to the annual ROPS request, Dissolution Law allows the Successor Agency to modify its ROPS once per year, prior to October 1.

FINANCIAL SUMMARY

The ROPS must be filed by February 1 in order for the Successor Agency to receive the June 1 and January 2 distributions of RPTTF dollars to pay obligations listed on the ROPS. Final payment amounts are subject to change based on the amount of RPTTF available and the DOF review process. City loan payments will be split pro-rata, based on the balances of the DOF approved
RPTTF will be deposited into the Successor Agency Administrative Fund 633-0000-311. City loan payments will be transferred to the funds listed below and 20% of the payment amounts will then be transferred to the LMIHF 329-0000-492 as required by Dissolution.

<table>
<thead>
<tr>
<th>Repayment Fund</th>
<th>Fund %*</th>
<th>Loan Payment</th>
<th>Transfer to LMIHF</th>
<th>Net Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>010 - General/Capital Improvement Fund</td>
<td>2.922%</td>
<td>147,919</td>
<td>(29,584)</td>
<td>118,336</td>
</tr>
<tr>
<td>301 - Capital Improvement Program</td>
<td>47.680%</td>
<td>2,413,688</td>
<td>(482,738)</td>
<td>1,930,951</td>
</tr>
<tr>
<td>054 - Community Development Block Grant</td>
<td>45.897%</td>
<td>2,323,428</td>
<td>(464,686)</td>
<td>1,858,743</td>
</tr>
<tr>
<td>418 - Parking District/Parking Authority</td>
<td>3.501%</td>
<td>177,230</td>
<td>(35,446)</td>
<td>141,784</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>5,062,266</strong></td>
<td><strong>(1,012,453)</strong></td>
<td><strong>4,049,813</strong></td>
</tr>
</tbody>
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*Fund percentage based on balance of DOF-approved City loans.

Attachment A - Resolution No. 11-0251
Attachment B - City Loans