

**COUNTY OF LOS ANGELES**

# **Oversight Board Training**

Prepared for the Chief Executive Office by Estolano LeSar Perez Advisors & Seifel Consulting



# TRAINING OVERVIEW

**ABx1 26 & Redevelopment**



**The Dissolution Process**



**Key Players**



**Main Steps & Timeline**



**Oversight Board**



**Key Decisions**



**Reviewing the ROPS**



**Expectations & Resources**



# ABx1 26 & REDEVELOPMENT

California Supreme Court upholds law dissolving redevelopment agencies

**DailyNews**  
LOS ANGELES

**SFGate**

Jerry Brown calls redevelopment agencies futile

**Brown's plan to eliminate redevelopment agencies could kill affordable housing program**

Silicon Valley  
**MercuryNews.com**

**Los Angeles Times**

**Gov. Jerry Brown signs laws to ax redevelopment**



# ABx1 26 & REDEVELOPMENT

## Background on ABx1 26

**Redevelopment elimination first proposed after Governor's election**

ABx1 26 dissolution and ABx1 27 payment to avoid dissolution signed by Governor in June

***CRA v Matosantos***

ABx1 26 dissolution upheld

**ABx1 27 “pay-to-play” struck down**



# ABx1 26 & REDEVELOPMENT

## Redevelopment Overview

Basics of Redevelopment

Tax Increment Financing

Payments to Affected Taxing Entities (ATEs)

Housing Set Aside Requirement

# ABx1 26 & REDEVELOPMENT

## Redevelopment

**Created to revitalize urban areas**

Governed by California Redevelopment Law

**Authorized formation of RDAs & project areas**

Required preparation of Redevelopment Plans with  
time and fiscal limits



# ABx1 26 & REDEVELOPMENT

## Illustrative Project Area



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# ABx1 26 & REDEVELOPMENT

## Redevelopment Powers

**Prepare sites for development**

Improve and build public facilities

**Buy and combine properties**

Sell or lease property

**Help owners and businesses**

Regulate land use

**Preserve, upgrade and produce housing**

Receive, spend and bond Tax Increment (TI)



# ABx1 26 & REDEVELOPMENT

## Tax Increment Financing

### **1952 Constitutional amendment**

Captures increased property revenue in Project Area to fund activities

**For 45+ years, most of increased property tax revenue allocated to redevelopment**

These revenues are Tax Increment (TI)

**Agency must incur debt to collect TI**



# ABx1 26 & REDEVELOPMENT

## How is Tax Increment Generated?

**If a property owner rehabilitates or adds value to a property**

If a property owner sells a property to someone else

**If new development occurs**

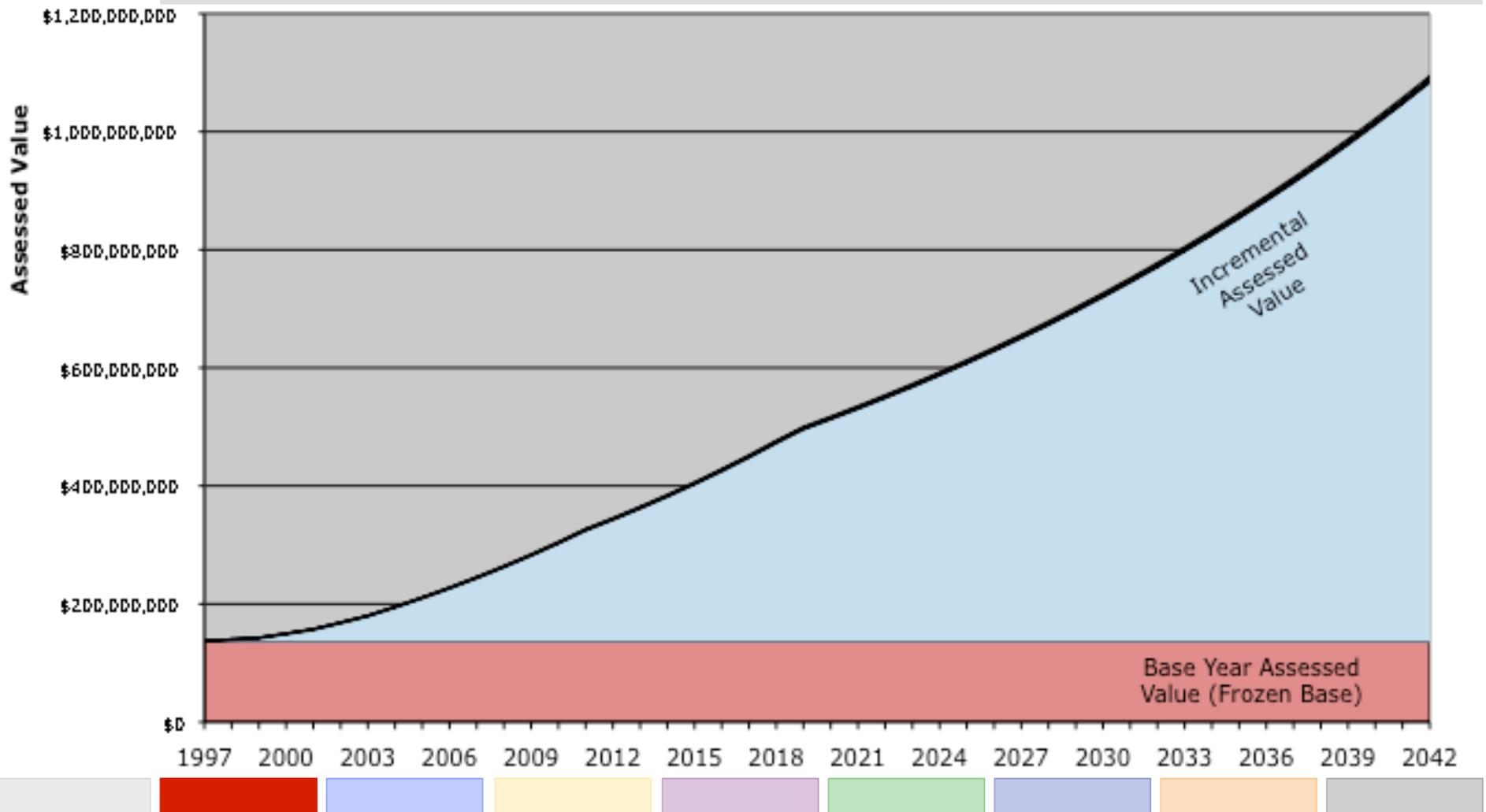
Basic “2%” growth

**(Tax Increment is generated from increase in value above the frozen base)**



# ABx1 26 & REDEVELOPMENT

## Growth in Assessed Value



# ABx1 26 & REDEVELOPMENT

## Agency Tax Increment Obligations

**County Administration**

Housing Set-Aside (20%)

**Payments to Affected Taxing Entities**

Bond Debt Service

**Other Long Term Debt Obligations**



# ABx1 26 & REDEVELOPMENT

## Housing Set-Aside Fund

**At least 20 percent of all tax increment revenue generated from project areas set aside**

Funds to be used to increase, improve and preserve community's supply of affordable housing

**Housing to be available at affordable housing cost and occupied by persons and families of very low, low, or moderate income**



# ABx1 26 & REDEVELOPMENT

## Payments to Affected Taxing Entities

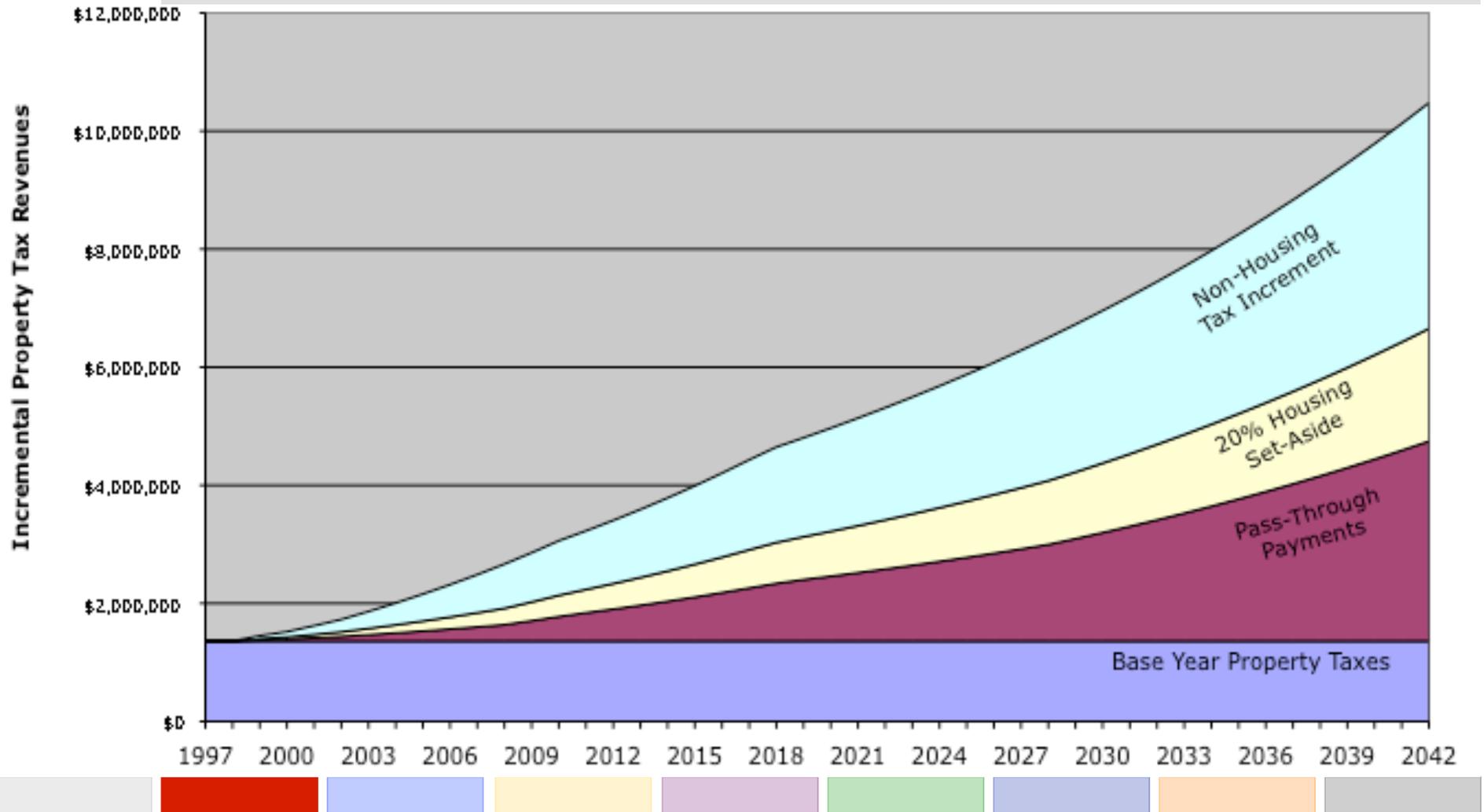
**Each affected taxing entity (ATE) continues to receive its share of property taxes generated from base AV**  
In addition, each ATE receives a portion of TI generated from increases in AV over base

**These additional payments are called “pass-throughs”**



# ABx1 26 & REDEVELOPMENT

## Property Tax Distribution



# THE DISSOLUTION PROCESS

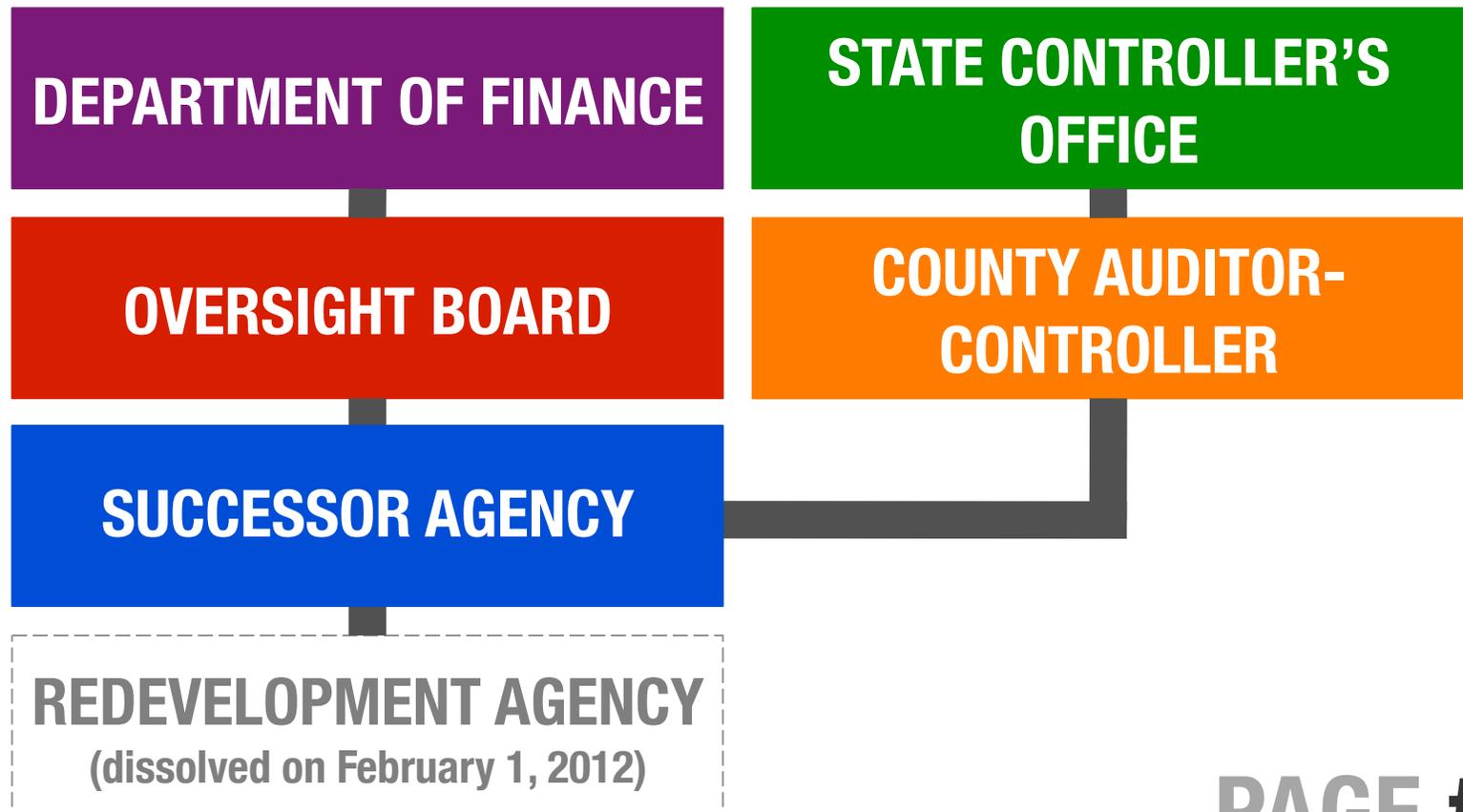
## Four Elements

1. Local Management and Oversight
2. List of Future Redevelopment Expenditures
3. Local Distribution of Funds
4. State Review



# KEY PLAYERS

## Dissolution Organizational Structure



## Overview of the Dissolution Process

1. RDAs prepare to be dissolved.
2. RDAs dissolve and their assets and liabilities are transferred to Successor Agencies.
3. Successor Agencies prepare the first Recognized Obligations Payment Schedule (ROPS).
4. Oversight Boards are formed and review the ROPS.



## Overview of the Dissolution Process

5. **The County Auditor-Controller administers the Redevelopment Property Tax Trust Fund, audits the former RDA, and certifies the first ROPS.**
6. **Ongoing wind-down of RDA activities, disposition of assets.**
7. **Ongoing review by Oversight Board and the Department of Finance.**



# MAIN STEPS & TIMELINE

## Important Dates

**April 15, 2012:** The Oversight Board submits approved first ROPS and immediately begins review of the second ROPS.

**April 27, 2012:** Deadline for Oversight Board to submit second ROPS.

**May 1, 2012:** Selection of Oversight Board members is complete.

**May 15, 2012:** Governor Brown appoints Oversight Board members to vacant positions.



# MAIN STEPS & TIMELINE

## Important Dates

**June 1, 2012:** Funds are distributed to Successor Agencies to pay for obligations on the second ROPS.

**July 1, 2012:** The Agreed Upon Audit Procedures (AUP) engagement is complete.

**July 15, 2012:** County Auditor-Controller reports to the State Controllers Office re: AUP.

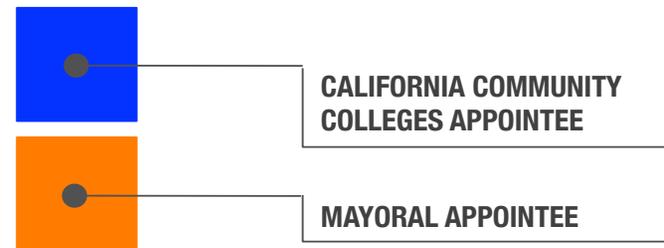
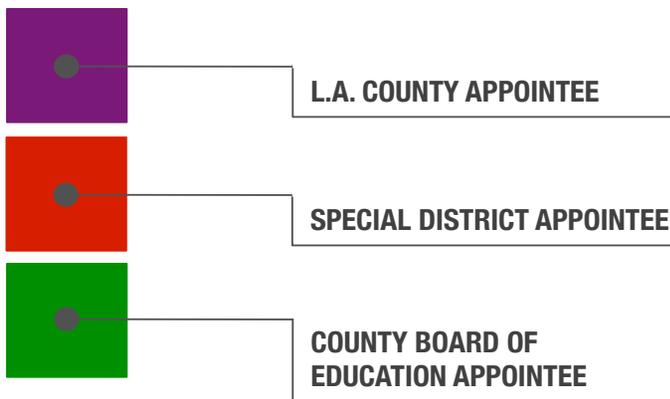
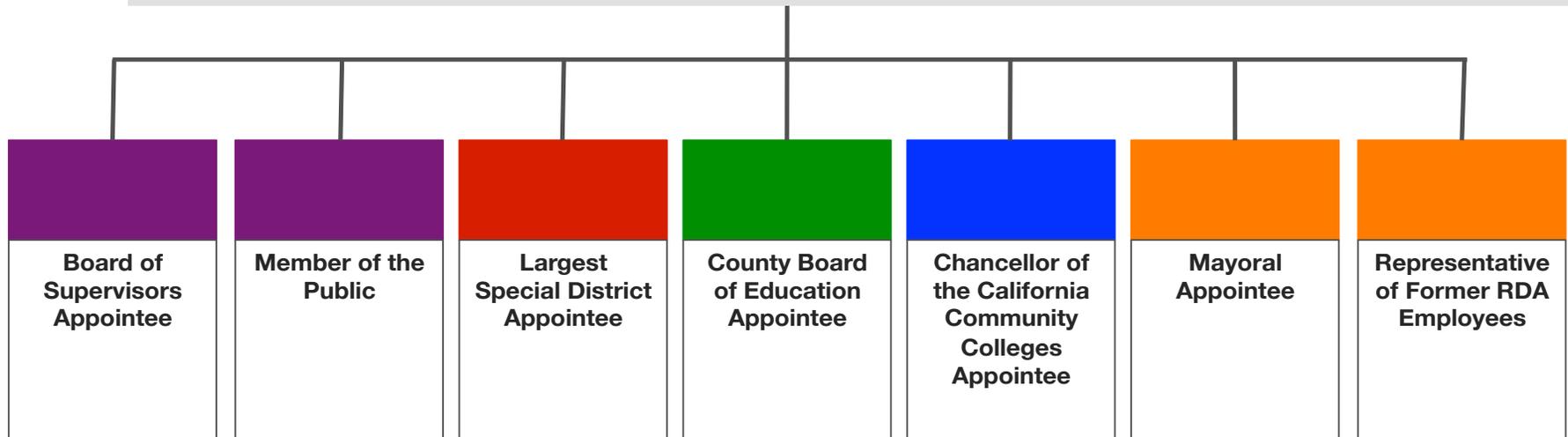
**Every October 1<sup>st</sup> and April 1<sup>st</sup>:** Approved ROPS must be submitted so that the Auditor-Controller's office can distribute funds.

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# OVERSIGHT BOARD

## Composition



## Fiduciary Duty

“Oversight boards shall have **fiduciary responsibilities to holders of enforceable obligations and the taxing entities that benefit from distributions of property tax and other revenues . . .**”

-- Health & Safety Code Section 34179(i)



# OVERSIGHT BOARD

## Sections 34180 & 34181

**Section 34180:** The Oversight Board must approve specific Successor Agency actions.

**Section 34181:** The Oversight Board must direct the Successor Agency to complete specific actions.

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# KEY DECISIONS

## 1. Elect a chairperson

The names of all Oversight Board members and the Chairperson of the Oversight Board **must be reported to the Department of Finance by May 1, 2012.**



# KEY DECISIONS

## 2. Designate a point of contact for DOF

**Each Oversight Board must designate a point of contact for the Department of Finance (DOF)** so that the DOF can effectively communicate with the Oversight Board and fulfill the state agency's oversight duties.



## 3. Establish OB rules and procedures

**Set meeting dates & times.**

Determine who will staff the Oversight Board.

**Appoint independent legal counsel.**

Provide direction to the Successor Agency regarding supporting documentation.

**Request use of a standardized ROPS submittal template.**



## 4. Direct Successor Agencies to report on sufficiency of cash flow

The Successor Agency should, in effect, present a budget to the Oversight Board that provides context for the decisions. **The Agency should highlight any potential funding shortfalls.**



## 5. Review and Approve ROPS

**The appointees should make the review, analysis and consideration of the ROPS their highest priority task** after electing a chairperson, designating a point of contact for the DOF, and establishing rules and procedures.



## 6. Approve Administrative Budget

Appointees should carefully **scrutinize the Successor Agency's administrative budget to ensure that the 5% allowable funding cap for FY 2011-2012 is used efficiently.**



## 7. Terminate or approve cooperation agreements

**Most of the Cooperation Agreements between former RDAs and their sponsoring cities will likely be invalid under ABx1 26.** Oversight Boards should review these Cooperation Agreements during the early months of their deliberations in order to eliminate potentially large expenditures by the Successor Agencies.



## 8. Terminate all agreements that do not qualify as enforceable obligations

It is essential that the Oversight Board **ensure that the Successor Agency is in fact terminating all agreements that are not enforceable obligations** and that the Agency is not incurring additional liability in connection with such agreements.

## 9. Terminate or renegotiate agreements with private parties

The Oversight Board should scrutinize existing enforceable agreements with private parties to **determine whether a renegotiation or early termination of such agreements might benefit the taxing entities.**



## 10. Dispose of assets

The Oversight Boards should develop a strategy, in consultation with real estate and transactional experts, to **dispose of the former RDA's assets in a manner that maximizes the value for the taxing entities.**



# REVIEWING THE ROPS

## Standardized ROPS Template

The Oversight Board may wish to **require the Successor Agency to use a standard template when submitting ROPS.**

APPENDIX #2



## Staff Reports & Documentation

The Oversight Board may wish to **require the Successor Agency to submit a staff report for each item on the ROPS.** In addition, the Oversight Board may wish to indicate the types of documentation it will require to review and evaluate certain types of obligations listed on the ROPS.



## Types of Obligations

1. Bonds
2. Loans or moneys borrowed by the RDA
3. Cooperation and financial agreements between the RDA and a sponsoring entity
4. Salary and benefits obligations
5. Pass-through payments



## Types of Obligations

6. Judgments and settlements
7. Disposition and Development Agreements (DDAs), Owner Participation Agreements (OPAs), Financial Assistance Agreements, and related obligations
8. Contracts or agreements necessary for the continued administration or operation of the agency
9. Other/miscellaneous



# REVIEWING THE ROPS

## 1. Bonds

**“ . . . that portion of the levied taxes each year . . . shall be paid into a special fund of the redevelopment agency to pay the principal of and interest on loans, moneys, advanced to or indebtedness . . . incurred by the redevelopment agency to finance or refinance . . . the redevelopment project.”**

-State Constitution Article XVI, Section 6



# REVIEWING THE ROPS

## Types of Bonds: Tax Increment or Other Revenues Pledged

### Tax Allocation Bonds (most typical)

Backed solely by tax increment revenues

### Revenue Bonds

Water and wastewater enterprise bonds, parking bonds, sales tax, etc.



# REVIEWING THE ROPS

## Types of Bonds: Property Tax/Special Lien

### Assessment District Bonds

Special assessment bonds

### Mello-Roos Bonds (Community Facilities District)

Special tax bonds



# REVIEWING THE ROPS

## Types of Bonds: Direct Obligation of Issuer

**COPs/Lease Revenue Bonds/Tax-exempt Lease**

Lease revenues pledged to repay bonds

**Notes/TRANS (Tax and Revenue Anticipation Notes)**



## 2. Loans or Moneys Borrowed

### Loans from federal or state government

Loans or advances from other public agencies

### Mortgage or construction loans

Loans of moneys borrowed from the Housing Fund



## 3. Cooperation & Financial Agreements between RDA and Sponsoring City

**Agreements or contracts between the City and former RDA are not enforceable agreements**

Two exceptions:

- 1. Pre-12/31/10 agreements entered into at time of debt issuance solely to repay debt are enforceable**
2. Loan agreements between City and RDA established within two years of Agency creation are enforceable



## 4. Salary and Benefits

**Collective bargaining agreement of former RDA employees is enforceable**

Successor Agency assumes obligations under any MOU

**Bargaining units created in Successor Agency to be consistent with those established in RDA**

After expiration of MOU, Successor Agency continues to be subject to collective bargaining



## 5. Pass-Through Payments (pre/post-1994)

**Pass-through payments may appear on the first ROPS (covering January 1, 2012 to June 30, 2012).**

Starting on the second ROPS (covering July 1, 2012 to December 31, 2012), **the County Auditor-Controller will make the required pass-through payments prior to transferring money to the Successor Agency to pay enforceable obligations.**



## 5. Pass-Through Payments (post-1994)

**“In some circumstances certain pass-through payments may be determined** by the Successor Agency, their respective Oversight Board and the external Auditor (and possibly the DOF/ SCO) **as being Enforceable Obligations...”**

-- Draft State Association of County Auditors Guidelines



## 6. Judgments and Settlements

**This category includes payments related to court or other binding decisions.** These include settlements entered by a court of law or binding arbitration decisions against the former redevelopment agency.



## 7. DDAs, OPAs, Financial Assistance Agreements, and Related Obligations

This category includes agreements related to real estate transactions. They apply to specific developments within a project area and **may pertain to land acquisition, the disposition of existing assets, public improvements, and advances made by the RDA to developers.**



## 8. Contracts or Agreements Necessary for the Continued Administration or Operation of the Agency

This category includes **obligations that allow the Successor Agency to wind down the former RDAs business and carry out existing obligations.**

Obligations may include office space rent, equipment, supplies, insurance and services.



# REVIEWING THE ROPS

## 9. Other/Miscellaneous

This category includes **any obligations or payments that are not included in the other nine categories.**



# REVIEWING THE ROPS

Object Name / Debt Obligation	Project Area	Payee	Revenue Source	Description	Outstanding Debt or Obligation
101 Tax Allocation Refunding Bonds	1	US Bank	Redevelopment Property Tax Trust Fund	Principal and interest payments made on the Bonds for funding redevelopment activities with respect to the Plaza Project Area.	\$ 3,950,813
198 Tax Allocation Refunding Bonds				Refunding of 1998 bonds and refinance redevelopment activities with respect	

## Sample ROPS

106 Tax Allocation Bonds	2	US Bank	Redevelopment Property Tax Trust Fund	Area No. 2.	\$ 52,588,415
DA Administrative/Employee Costs (July 2011 - Jan 2012)	2	Redevelopment Agency & Several Vendors	Redevelopment Property Tax Trust Fund	Payroll cost for RDA Employees (July 2011 - Jan 2012), salaries, insurance, and benefits, and Agency supplies, equipment and other operational supplies	\$ 2,225,658
Successor Agency Administrative/Employee Costs (Feb - June 2012)	2	Successor Agency & Several Vendors	Administrative Cost Allowance	Payroll cost for Successor Agency Employees (Feb - June 2012), salaries, insurance, and benefits, and Agency supplies, equipment and other operational supplies	\$ 9,604,167
Escal Agent Fees	2	Willdan	Redevelopment Property Tax Trust Fund	Annual Disclosure report fees	\$ 538,500
Hawthorne Boulevard Property Fund (Commercial - Non-residing)	2	City of Hawthorne	Redevelopment Property Tax Trust Fund	Agency owned commercial rental units on Hawthorne Boulevard. Payments are for operation/maintenance costs related to the property.	\$ 694,793
Revilla Property Fund (Residing)	2	City of Hawthorne	Redevelopment Property Tax Trust Fund	Agency owned 8 residential rental units. Payments are for operation/maintenance costs related to the property.	\$ 1,594,471
Male Properties Fund (11605, 529, 11537 Gale Avenue) (Residing)	2	City of Hawthorne	Redevelopment Property Tax Trust Fund	Agency owned 27 residential rental units. Payments are for operation/maintenance costs related to the property.	\$ 5,385,346
Uro Avenue Property Fund (Residing)	2	City of Hawthorne	Redevelopment Property Tax Trust Fund	Agency owned 3 residential rental units. Payments for for operation/maintenance costs related to the property.	\$ 1,248,939
DA/Successor Agency Insurance Costs	1,2	City of Hawthorne	Administrative Cost Allowance	General liability and workers compensation	\$ 87,628
Auto Nation/Costco Note	2	City of Hawthorne	Redevelopment Property Tax Trust Fund	Repayment of note to the developers of AutoNation/Costco note, consisting of Mello-Roos tax refund, sales tax and transient occupancy tax refund to the extent these taxes are generated within the project.	\$ 24,553,438
Professional Services - Redevelopment/Successor Agency	1,2	Rosenow Spevacek Group, Inc.	Redevelopment Property Tax Trust Fund	Redevelopment/Successor Agency/Oversight Board consulting services	\$ 65,000
Agency Professional Services - Financial	1,2	Vasquez & Company, LLC	Redevelopment Property Tax Trust Fund	Redevelopment annual audit	\$ 10,000
Agency Professional Services - Legal	1,2	& Gershon and Best, Best &	Redevelopment Property Tax Trust Fund	Successor Agency legal counsel	\$ 10,000
2009-10 Pass Through Payments	2	Affected Taxing Entities	Redevelopment Property Tax Trust Fund	Pass through and negotiated agreement payments to affected taxing entities	\$ 1,123,537
2010-11 Pass Through Payments	2	Affected Taxing Entities	Redevelopment Property Tax Trust Fund	Pass through and negotiated agreement payments to affected taxing entities	\$ 1,115,432
2011-12 Pass Through Payments	2	Affected Taxing Entities	Redevelopment Property Tax Trust Fund	Pass through and negotiated agreement payments to affected taxing entities	\$ 993,558
Tax Rebates	2	City of Hawthorne	Redevelopment Property Tax Trust Fund	Tax rebates	
<b>Total</b>					<b>\$ 211,981,960</b>



# REVIEWING THE ROPS

## Bonds

Line item: 2

Project Name/Debt Obligation: 1998 Tax Allocation Refunding Bonds

Project Area: 2

Payee: US Bank

Revenue Source: Redevelopment Tax Property Trust Fund

**Description: Refunding of 1998 bonds and refinance redevelopment activities with respect to the Redevelopment Project Area No. 2.**

Total Estimated Debt Obligation: \$14,085,281

Obligation Expiration Date: 9/1/24

Total Due During Fiscal Year: \$694,375

**Total Due in May & June 2012: \$116,688**



# REVIEWING THE ROPS

## Bonds

Line item: 15

Project Name/Debt Obligation: Auto Nation/Costco Note

Project Area: 2

Payee: City of Hawthorne

Revenue Source: Redevelopment Property Tax Trust Fund

**Description: Repayment of note to the developers of AutoNation/Costco note, consisting of Mello-Roos tax refund, sales tax and transient occupancy tax refund to the extent these taxes are generated within the project.**

Total Estimated Debt Obligation: \$ 24,553,438

Obligation Expiration Date: 11/8/30

Total Due During Fiscal Year: \$ 24,553,438

**Total Due in May & June 2012: \$0**



# REVIEWING THE ROPS

## Administrative Costs

Line item: 8

Project Name/Debt Obligation: Successor Agency Administrative/Employee Costs (Feb - June 2012)

Project Area: 2

Payee: Employees of Successor Agency & Several Vendors

Revenue Source: Administrative Cost Allowance

**Description: Payroll cost for Successor Agency Employees (Feb - June 2012), salaries, insurance, and benefits, and Agency supplies, equipment and other operational supplies**

Total Estimated Debt Obligation: \$ 9,604,167

Obligation Expiration Date: 9/22/48

Total Due During Fiscal Year: \$ 104,167

**Total Due in May & June 2012: \$41,666**



# REVIEWING THE ROPS

## Housing

Line item: 11

Project Name/Debt Obligation: Grevillea Property Fund (Housing)

Project Area: 2

Payee: City of Hawthorne

Revenue Source: Redevelopment Property Tax Trust Fund

**Description: Agency owned 8 residential rental units.  
Payments are for operation/maintenance costs related  
to the property.**

Total Estimated Debt Obligation: \$ 1,594,471

Projected Payment Dates: Monthly

Obligation Expiration Date: 11/26/37

Total Due During Fiscal Year: \$ 58,157

**Total Due in May & June 2012: \$9,692**



## Tips for Reviewing ROPS

1. Understand all the sources available to pay enforceable obligations
2. Understand the total amount of money available to pay enforceable obligations during the ROPS period
3. Identify obligations that are clearly not enforceable (e.g., cooperation agreements, low and moderate income housing set-asides, etc.)
4. Focus on big-ticket items first
5. Ask for supporting documentation



# REVIEWING THE ROPS

## Open Questions

**ABx1 26 complex and “murky”**  
Varying interpretations

### **Examples of questions:**

Administrative cost allowance

**Bond cash flow reserves**

Pass-through payments/waterfall

**Loan agreements**

Unencumbered funds



## Available Resources

### Department of Finance Website

[http://www.dof.ca.gov/assembly\\_bills\\_26-27/view.php](http://www.dof.ca.gov/assembly_bills_26-27/view.php)

### The Successor Agency

### The County Auditor-Controller

<http://auditor.lacounty.gov/wps/portal/ac>

### County Counsel

### Staff Analyses/Reports

### County Website (URL forthcoming)

### Chief Executive Office

email: [oversightboard@ceo.lacounty.gov](mailto:oversightboard@ceo.lacounty.gov)



# MAJOR POINTS

## Major Takeaways

**Oversight Board members must be prepared to act quickly from the onset**

**Oversight Board members have fiduciary duties to the holders of enforceable obligations *and* the affected taxing entities**

**There isn't clear guidance on a number of issues that many Oversight Boards will face**

**Refer to the Oversight Board Training Manual for guidance and utilize the resources made available to you**



# CONTACT INFORMATION

**Cecilia Estolano**

cecilia@elpadvisors.com

**Jennifer LeSar**

jennifer@elpadvisors.com

**Estolano LeSar Perez Advisors**

213-612-4545

www.elpadvisors.com



**Estolano LeSar Perez**  
ADVISORS LLC

**Elizabeth “Libby” Seifel**

libby@seifel.com

**Marie Munson**

marie@seifel.com

**Seifel Consulting**

415-618-0700

www.seifel.com

**Seifel**  
CONSULTING INC.

