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>> Mayor Reed: Good morning, I'd like to get the meeting called to order. This is the oversight board, Successor Agency to the Redevelopment Agency meeting of August 9th, 2012. We have a quorum. Any changes to our agenda order to consider? We have no requests for changes so we'll move on. We have no closed session report. We do have minutes from June 28th, 2012 to consider. Motion is to approve the minutes. On the motion, I've got second, on motion all in favor, opposed, none opposed, minutes are approved. Nothing on the consent calendar. The first item scheduled for action is 6.1, the use of BPM auditors. Richard.

>> Richard Keit: Thank you, Mr. Chair. We -- the state has come up with another audit activity for us to undertake. We're still in the first audit phase, it's called upon the agreed upon procedures, or AUP, which is a comprehensive review of the assets and liabilities and indebtedness incurred by the former Redevelopment Agency which determines any pass-through payment obligation to other taxing agencies, which we have none. This one is called the due diligence report that every Successor Agency must undertake. And there are three options we had to consider that was presented by the county. The first option is that the county completes the audit using the firm that did the AUP, which we're supposed to have that information any week now in a final draft format. And then option 2 allows the Successor Agency to directly contract with the same firm that completed the AUP. Option 3 would be to hire another firm but it can't be the firm that we use for our CAFR, our Comprehensive Annual Financial Report. We chose option 2 which is using the same firm that did the AUP and to do the due diligence report. The county recommended that the county finance and we agree, and hopefully it is the most cost-effective. As of right now, the state, California association of auditors, has asked all the CPA firms that are doing this not complete contracts or sign contracts at this time because the state did not put procedures forth yet. We don't know many we assume that's imminent but again, we don't know. So we're hoping very much that we have amount not to exceed 75,000. We think that's realistic. We're hoping the range is somewhere between 45 and 75,000. So at this time what we're asking for is you to approve the same firm, BPM, and doing the due diligence review and of course we'll report back on what that amount comes to once we finalize the contract once the tight issues its setup procedures.

>> Mayor Reed: Any questions about the recommendation? I think you said that the county finance agrees that this is the best route to take.

>> Richard Keit: They agreed with option 1 or 2 and it was up to the Successor Agency's discretion.

>> Mayor Reed: Okay, any questions, is there a motion? We have a motion to approve. On the motion all in favor? Opposed, that's approved. What about the trailer bill, is there a trailer bill to follow the trailer bill?

>> Patricia Deignan: Thank you, chair, Patty Deignan, General Counsel's office. Various city attorneys around Santa Clara County have met and worked with the county counsel's office, and James Williams from the county exec's office to put together the summary of the trailer bill that's in your packet. James is going to go over the guts of the general provisions of that 1484, and then I'm going to join in at the end and talk of a little bit about what it means specifically to San José.

>> Thank you, Mr. Chair, members of the board, James Williams, special assistant to the county executive. We have a brief presentation on 1474. There's a narrative memo that's in your packet and was distributed previously, as Patty explained. And I'm going to try to cover as quickly as I can some of the key issues in 1484. It is not just a technical cleanup bill. This was a very significant substantive change in ABX 126. And I think the fastest way to sum it up in one sentence is that it's in essence DOF's trailer bill to meet part of the state's needs in this fiscal year for the state budget and to centralize control with the state Department of Finance. I'm going to cover a few of the key points. First, is a new ROPS process. Second, a due diligence review which was just mentioned. Third, some of the penalties and carrots that are included in the bill. Fourth, the long-term property management plans, which is a new process for dealing with asset deposition. Then, the oversight board powers, duties and procedures. We'll touch upon the time line, because there are a number of things coming up very soon. And then Patty is going to pick up on specific issues for San José. The new ROPS process changes what happened before. So now ROPS are due 90 days before distribution, so it's much earlier, and the next ROPS is due September 1st. So that will come before this board at its next regular meeting later this month. Unlike before, the county auditor-controller will no longer certify the ROPS before the oversight board meeting. Instead there's a new process for review at the county level, and that is that the county auditor-controller can object to items or funding sources any time up until 60 days before the distribution. So this means that could occur either before or after the

oversight board takes action. The finance agency is requesting that ROPS be submitted early so that that process can happen before the forms get to the oversight board so that you have the benefit of that information. But that may not be possible in all cases during this period because of the impending deadline of September 1st. In each instance, the county finance agency instead of issuing a certified ROPS will issue either a no objection letter or a letter of objection for every ROPS. The letter of objection would delineate the specific line items that the auditor-controller has an issue with, with the reason for that. It will look a lot more like what the Department of Finance is doing when it issues its final approval letters with respect to ROPS.

>> Mayor Reed: Yes, we have a question.

>> Donald Gage: James, I'm assuming that the normal dialogue between the Successor Agency will continue to occur to try to negotiate before a final letter is sent out one way or the other?

>> Yes, and that is why we have actually sought input from cities and issued some guidance if you will to make specific requests and delineate a process for this that encourages early submission, so that we have time to engage in that informal process, request any clarifying material if needed. We also anticipate that this is going to be in general much more straightforward. Because items that have already been seen, which should be the vast majority of the ROPS, in each instance, those have already been reviewed. They're already been reviewed by DOF, they've already been reviewed by the county. There shouldn't be any issues there, it's only with respect to any new items or any significant changes in the items. That should reduce the volume of what is examined.

>> Donald Gage: Thank you.

>> Under the new process if an oversight board disagrees with the county auditor-controller objection, it can choose to refer the matter to the Department of Finance for final determination. The other main feature, this is I think the biggest feature in the bill is this new due diligence review process. As mentioned, it does require a new audit to determine the amount of cash that is available for transfer to taxing entities. And the time lines for this new due diligence process are really clearly geared towards meeting the state's needs for this fiscal year's

budget. This audit must account for all asset transfers since January 1, 2011 running through June 30th of 2012. In many respects, it's duplicative of the county Aup in this county because in this county the aup is looking at asset transfers from January 1, '11 through January 31, 2012. So the new process extends it out to June 30th, '12. But it has specific requirements for specific itemized schedules and specific manner of accounting that is all laid out in the statute. It's essentially a mechanism to effectively claw back all cash that is or should be available for distribution, I say should be because it includes accounting for moneys that may have been transferred out to other entities. And it requires separate reviews of both the housing funds, those due in October, and all other funds which is due in January. For each respective review the oversight board is required to meet twice. The first to hold a public hearing, second at least five days later to actually approve the due diligence review. At that time, the oversight board can make certain adjustments to the amounts or reserve certain amounts for certain obligation needs by making specific findings and including that in the report. That is then sent up to the state Department of Finance. They have a period to review it. At the end of that they issue their final determinations. Successor agencies can then engage in a meet-and-confer process at that time. Ultimately as a result there'll be in essence bills issued if you will and Successor Agencies will be required to remit the amounts due from those. If they don't then penalties which I'll mention in a moment will kick in. As mentioned the county audit can be used in lieu of the due diligence review with oversight board approval. About half of the jurisdictions in this county are opting for that. That's one of the many options available. I mentioned the penalties, and carrots. There are very significant penalties imposed in the bill. The most significant are that there are potential offsets against sales and use tax and property tax that can be done by both the state Department of Finance or the county auditor-controller. In addition, civil penalties can accrue 10% plus an additional 1.5% per month for delayed payments. This references the delayed payments from the due diligence process. But also, from the true-up process which has already happened. The -- in addition there are penalties for late ROPS, there are penalties imposed on county auditor-controllers for noncompliance. I think the take away from this is state Department of Finance was not pleased with the level of cooperation from both county auditor-controllers and from cities across the state and wanted significant penalties to encourage compliance. On the other side of that, the bill also includes some important carrots if you will for Successor Agencies. The Successor Agency that does make all the payments required by 1484 is then eligible to receive from Dof a finding of completion. That finding of completion eliminates the -- runs the statute of limitations on actions but also gives the following three major benefits. First,

any unspent bond proceeds from pre-2011 bonds can be used for new expenditures, although those must be placed on ROPS. The second, which is significant and will apply here is that city loans can be restored as enforceable. If you recall under ABX 126 agreements between the city and Redevelopment Agency are invalid and not binding. They can now be deemed enforceability subject to a number of conditions. One, the oversight board must make a finding that it was for legitimate redevelopment purposes and approve it. Second, they must be recalculated from origination at LAIF. Third they are limited to the LAIF rate going forward. Fourth, 20% must be set aside for affordable housing. And fifth, the repayments themselves are limited starting in fiscal year 14 and cannot exceed more than 50% of the growth in residual. And so that means for San José, it may be a number of years before actual repayments could be made. And finally, Successor Agencies can propose a long term property management plan and let me talk about that. This is a new process really to deal with asset distribution. Within six months of a finding of completion a Successor Agency must propose a long term property management plan for oversight board approval and then subsequently DOF approval. Possible uses of the property include one of the four options. First if it's a governmental use property, like before it can transfer to any governmental entity. Second, if it is a property within the redevelopment plan for future redevelopment, the Successor Agency can propose that it transfer to the city. Third if it's a property for sale or income generation and this is a new provision that if a property is income-generating can be managed and the income can be split. The proceeds gets distributed to taxing entities. And finally, if it's needed for an enforceable obligation the property can be retained by the Successor Agency for that enforceable obligation. This will be the main focus of oversight boards in mid 'tween after this whole due diligence process has been completed. In the interim, asset disposition is under the old provisions or suspended except for governmental use assets until this process can be completed. There are also a number of changes to oversight board powers duties and procedures. There is some new and clarified powers and duties. One, specific reference is that oversight board decisions for matters within its purview supersede those of the successor agency or its staff. The oversight boards can direct the Successor Agency to provide additional legal or professional advice. Oversight boards can now contract with the county or other public or private entities for administrative support. Oversight boards can reduce the \$250,000 administrative allowance before there was a reading that that was a mandatory minimum admin if you will. The bill clarifies that there's really no minimum. There's a 250 cap or a 3% cap, whichever is greater, but it's a cap oversight boards can go at a lower amount for the administrative budget. Oversight boards cannot restore any

items DOF has previously disallowed. They can also not restore any loans except through that process I mention after a finding of completion. And nothing that's reestablished is valid until it's gone through on a valid ROPS. And as I mentioned, asset disposition process is suspended until there's a finding of completion except for governmental use process. There are also some procedural changes. First all actions must now be by resolution and you'll see I think these three kind of fit together. Resolution to make sure that the action's in writing, no more motions. Likewise, all materials have to be submitted to the county and Department of Finance at the same time as they go to oversight boards. And there's a change in DOF's review process. If you recall, under ABX 126, DOF previously had three days after an oversight board took action to flag it for review, and then ten days to review the action and return it if they disapproved. Now, DOF has five days after affirmative notice. So if it takes a week to send them the resolution after oversight board action, the five day clock doesn't start until then. And now they have 40 days to review the action, not 10, if they flag it, and for ROPS they have an even longer period of time, and for asset transfers they have 60 days. So DOF's getting much longer time for review. How that could impact actions that need to be taken at certain times remains to be seen. And finally the county auditor-controller determines the largest district, that's a clarification in the bill. Just wanted to highlight the time line very quickly and there is a more detailed one included in the memo. You should all be aware of the numerous meetings that are all coming up. First on August 1st the Successor Agency submitted a housing asset list, I know that's included in the packet today. On September 1 the next ROPS is due, that will come up this month, that's for January through June 2013 ROPS. On October 1 the county AUPs are due. The county auditor objections to ROPS are due and the housing due diligence report is due. But by October 15th this board will have to have held at least two meetings five days apart to approve the housing due diligence review, the first of which is a public hearing. Similarly, by January 15th, the oversight board must hold two meetings, five days apart, to approve the all other funds due diligence review. And by April is when DOF will finalize all the due diligence materials and that's probably when findings of completion will be issued. Not included here March 3rd is the deadline for the following ROPS for the period of July through December of 2013. I'm going to turn it over to Patty now.

>> Patricia Deignan: Thank you, James. Can you just get us to the last slide? Thanks. I'm sorry.

>> Mayor Reed: That's all right. We saw it for about a half-second.

>> Patricia Deignan: There we go.

>> Mayor Reed: It was the last slide in the deck, right?

>> Patricia Deignan: So James really went through everything that I was going to say. But there were a couple of things that I wanted to point out. The -- to get to the finding of completion, there are several steps. One is the true-up payment, which we're going to be giving you an update on the true-up payment, was that supposed overpayment that was made in the last ROPS period. And Arn is going to give you an update on where we are with that. Then there's also the housing due diligence review which is due on October 1st and then the other funds, due diligence review that is due by January. To get the -- the finding of completion is very important as James was pointing out for a lot of other things, including specifically the disposition of assets. And as you probably remember, we are in the process of trying to dispose of about six assets right now. And this is putting, could be a potentially about a seven-month delay on that. So staff is going to be reporting back next -- at your next meeting as to how we're going to manage that. The April deadline is a deadline so we can try to get these processes moved up as much as we can. We're working really hard to comply with all of the auditors that are around. But a lot of it is out of our hands because it all has to be reviewed by the state. So we're going to try to figure out how we can move up the disposition of the assets. But it could be a difficult thing to do. The other thing that was in 1484 that really helped us a lot was clarification on subordination of a negotiated pass-through agreement. That was an issue that hung us up in June and now is very clear that basically our debt service is senior to the negotiated pass-through agreements. The other little thing that made a big change in our board is the fact that the makeup of the board includes a board member that is supposed to be representing the agency employees, the former agency employees. So now Abe andrade has been appointed to -- yeah, current agency employees. Well, current employees of the former agency. And then the fourth thing that James also touched on is this change in notice of all the oversight board actions. So we have changed our process in getting out the agendas to the state, and also, the county. And that's already taken place, Dennis took care of that for this meeting. And that is it, if there are any questions.

>> Mayor Reed: I have a question, probably for James, based on the statute. I'm trying to figure out what was driving the legislation on how we're handling real property assets. I know there's 400 agencies around the state, not all of them have been cooperative with the state, I know that's behind a lot of these things. So for example our effort to sell assets which we were directed to do under the original statute has now gotten more complicated and will be more lengthy. So what was driving that which really seems counter to where everybody was trying to go to liquidate the assets?

>> My guess, and this is only a guess, is that what was driving the change in the asset disposition process were three things. First, this new 1484 process unlike the prior process does have an option that cities could retain some properties for future development. So that's a city benefit that was added to sweeten things in 1484 for cities. And to allow that, there needed to be some type of mechanism. The second is there's been a lot of concern in in state about fire sales or about how DOF was going to meaningfully review asset sales and they didn't have the infrastructure. One of the things I didn't mention is the bill included a \$20 million appropriation for DOF as well as a two-year suspension of normal state procurement and hiring rules for DOF so that they can build an infrastructure to actually do what they need to do, to do reviews and do things on time and review reports online, so forth. So creating a plan is going to let DOF at one time look at all the properties and sign off on asset disposition. I think that was kind of the third piece, which was a desire to not necessarily stretch out asset sales over many, many years for oversight boards, but let oversight boards approve an overall plan. And I know in San José's case a plan was approved to deal with a bunch of properties. But in many other instances properties were coming on a one-off basis before boards without a picture of what's happening to all properties. This process and this is one piece that I think is a good thing, this process requires the board to look at all properties together, and say these properties we are doing this with, these properties we're doing that and do it in a mores sensible fashion that way. But you're right it causes a delay. And it's not an extremely long delay but the question is well, what happens in cases like San José where the property largely needs to be sold to deal with enforceable obligation issues. The only exception was for governmental use assets. That's something where the legislation doesn't necessarily match up with the specific issues faced here but they're looking statewide at what was happening.

>> Mayor Reed: Has the Department of Finance given any indication of where they're going to be able to start dealing with these asset plans sooner rather than later or is this part of the staffing up that they've got to do before they can do the work and They've given themselves till April?

>> Patty can say what she thinks but I think from my perspective I would be doubtful that Department of Finance would be able to handle it significantly sooner. I do think that things from this county could move faster than elsewhere in the state because the audit work is much more progressed here and DOF is definitely going to deal with the audits first. So I think there's a possibility that things could happen slightly sooner here. But we're talking maybe a month or two, not that they're going to issue a finding of completion this fall.

>> Mayor Reed: Okay. Other questions from anybody on this? I want to again thank the city staff, county staff and auditor-controller, everybody involved in this. This is a moving target and the targets are moving within the targets, et cetera. There will probably be another trailer bill, as was mentioned earlier. So it's not going to stop moving for a while, so working together I think is really important to try to sort this out. So I applaud the fact you've got sort of all the lawyers together and issued some guidance. I think that would be helpful to us as well as the other Successor Agencies. Richard do you have something to add?

>> Richard Keit: Yes I do. I just wanted to inform the board it was discussed by James, the ROPS, two, three that we're doing, undertaking now, again here is something else that DOF had promised earlier. It's a different form. In one respect it may be easier but it adds culmination. Again it's a learning process to give and take from the county to get it straight. Hopefully from this ROPS 3 going forward they'd never change it but who knows? That's not been their ability. They did away, if you recall there was A, B, C, D and E, I can't remember, parts to it. There is only one form but they have added columns. So it will take a little bit extra work but we will bring it back. Clearly, we will have it done before September 1st, and we'll bring it back for our special meeting held on August 23rd.

>> Mayor Reed: Any questions from anybody? This was just a special report on a trailer bill report. 7.2, the information on housing assets.

>> Leslye Corsiglia: Thank you, chair and mayor. Leslye Corsiglia, I'm director of housing, and wanted to talk over the housing asset list. It's not included in your packet, but we included a link. It's a very long report. Going back to assembly bill X-126, which was the dissolution bill. That bill allowed cities to retain the assets and responsibilities of the former agency, as it related to housing assets. And it also specified that Successor Agencies had the responsibility of transferring those assets if a city accepted that responsibility. So in January of last year, the city did take those actions. The city did agree to take responsibility for managing those housing assets. And did transfer those assets effective February 1. AB 1484, which came out, clarified what those assets were. And required a report of those assets that needed to be submitted to the Department of Finance by August 1st. That report was completed and submitted on time. What the assets are that are included in this report, it has real property, so that the city hasn't -- doesn't really like to be a landlord of property. But there are a number of pieces of property at the time of dissolution that were still in the City's hands before they were disposed of for affordable housing purposes. Personal property, so anything that we had including computers and chairs and desks. Encumbrances, so those were not yet loans, but they were enforceable obligations where we had encumbered funds for affordable housing projects. Most of those were actually almost complete with construction. Loans and grants receivable, and that's where you're going to get the longest list, because that includes every loan that the city made, every grant that it made for both multifamily loans and single family loans to home buyers and to homeowners for housing rehabilitation, very long list. List of income off of assets, which is what we call program income. So it's loan repayments, what we call residual receipts which is a repayment we get from developers. Any kind of payment or loan that we receive back. And also, the rents from our real properties, so on those few properties that we do own, the rents that we take in. And lastly, loans to the low-mod fund which really is the CRAF payments. So as I mentioned, we did submit those on August 1st, Department of Finance has 30 days to review the list and to make any objections if they have them. If they do object we have five days to ask for a conference. There is no real date of when they have to respond and have that conference and have a final decision. But that's -- we're really helpful that it will be approved. We feel very confident that we have completed a very thorough and accurate list in accordance with the legislation. If anyone has any questions, I'm here to answer.

>> Mayor Reed: Any questions?

>> Donald Gage: When will we get a complete review of that, at the next meeting? Can go online but it would be nice to have a review here and then be able to ask questions on certain items.

>> Leslye Corsiglia: We can do that. If you see the list, it will -- it's really a long list of things like loan numbers and amounts. It's not -- it's -- but we can certainly put it back on the agenda for the 23rd, if you would have any question on that.

>> Donald Gage: Well, we initially saw a list that was like that, as I recall, and they broke it down into categories. That was early on when we started meeting.

>> Leslye Corsiglia: This is physically the same list, but in DOF's format. So it's a lot of numbers, like loan number 000123.

>> Donald Gage: I'm not interested in that, but Leslye, could you provide the original list again? Because I know I didn't keep it. If I have that, because we did have discussion on that.

>> Leslye Corsiglia: Absolutely we, can provide that.

>> Donald Gage: Give us that. The loan numbers I don't need any of that.

>> Leslye Corsiglia: We just did DOF's, but we have the original --

>> Donald Gage: I just wanted the categories, where the properties were, what the status of them was, what the original document had.

>> Leslye Corsiglia: Perfect we will do that.

>> Donald Gage: Thank you.

>> Mayor Reed: And then if we have any disagreements with Department of Finance, maybe that's the time for us to take a look at it. Just wait and see how their review goes. But I think we can take that up after we've got a response from them. Then we can decide whether or not to put it on our agenda. Supervisor.

>> Donald Gage: I don't know that we -- maybe James can clarify. What I heard was once the Department of Finance they don't deal with us anymore, they deal directly with the agency, is that correct? I wouldn't bring it back here --

>> Mayor Reed: Doesn't mean we couldn't discuss it still.

>> Donald Gage: I don't know what we would do with it.

>> Mayor Reed: Me either, depends what they say.

>> Donald Gage: Yes.

>> Leslye Corsiglia: If the assets are transferred it is transferred and they are no longer under the purview of the oversight board. But if there are questions about those assets, then I think that would come back, because then it may be that the oversight board would need to determine what to do with those assets.

>> Donald Gage: That's it, got it.

>> Mayor Reed: Anything else on this report? You'll send out the earlier version. All right let's move to 7.3.

>> Mr. Chair and board, Arn Andrews acting assistant director of finance. We thought it was important to give the board and update of what has transpired since the July 9th meeting. On July 9th we asked the board to consider changes to ROPS 1 and ROPS 2 which the board did adopt at that time. Those changes were immediately passed to the Department of Finance, for their verification and certification. And since that time that has not occurred, so I just want to draw your attention to a few things that have transpired since that July 9th meeting. On July 11th we did transfer to DOF the board-approved ROPS and we were provided an indication that it may or may not be considered. Once again I would just like to echo the collaboration between ourselves and the Department of Finance at the county. On July 11th their director of finance also issued a letter directly to DOF, concurring that there was not this concept of an overpayment and that there were not reserves in the successor agency. So once again I would just like to thank them for that collaborative effort to try and get DOF to understand the unique circumstances of our Successor Agency. On July 20th, on sorry on July 12th we received a communication, it was a global communication from the Department of Finance saying that they would no longer consider changes to previously approved ROPS. After that, we had additional communications with them trying to get a better understanding of why they were taking that stance. It didn't seem to be predicated on the legislation, it just seemed to be some time of dictum. On July 20th, we received another communication global communication from the Department of Finance where they indicated that there would be some type of mechanism to try and look at Successor Agencies similar to ours that have these unique situations and do further evaluation. On July 24th, as part of that evaluation process, we did receive communication from a staff analyst at DOF and they provided us yet another administrative tool, a new spreadsheet for us to consider. This spreadsheet appeared to be very similar in scope to the insufficiency of funds report that the county auditor-controller provided. That looked at an 18 month period. This particular spreadsheet was looking at a 12 month period. Staff provided that analyst with all that information and some additional information. And so we were contacted earlier in the week and told that they were going to arrive actually yet and today to perform onsite due diligence to hopefully wrap up the process. I received a phone call early yesterday that they actually would not be arriving. So we're still trying to find out what the final process and procedure will be to hopefully wrap this up. But since July 9th the board approved amendments to ROPS 1 and 2 have yet to be certified by the Department of Finance.

>> Mayor Reed: Questions? None, okay. 7.4, the J.P. Morgan letter of credit.

>> Again, Mr. Chair and board. We've previously come before the oversight board to talk about renewals for J.P. Morgan, their letters of credit, which is tied to one of the variable rate components of the portfolio that you oversee. Originally we came before the oversight board which was a one-year extension from July 1, 2012 to July 1, 2013. However due to concerns regarding some of the legs than apparent elements of the legislation J.P. Morgan became concerned from a business standpoint. And at the time they were only willing to give us a two-month extension to September 1st. Since that time we've worked once again in a very collaborative nature with the county, and that culminated towards the end part of July -- sorry, the end part of June, around June 27th, when we finally in total received total property tax distributions from the county in the area of about \$77 million, and that was sufficient for us to choreograph a sequence of wires between the senior fiscal agent and subordinate fiscal agent to make sure that we avoided any potential event of default. J.P. Morgan seeing that, once again, was very comfortable with the way our county and our Successor Agency are handle the process. And so they have since decided to give us an additional extension to March 1st. They only did the March 1st period because they still want to see how some of 1484 transpires. They also want to see how the January property tax distribution transpires. But they have given us the room to continue to do what we have been doing which is interpreting the legislation and operationalizing it to the best of our ability.

>> Mayor Reed: No questions, I think. So let's move to the accounts receivable and collections process report.

>> Richard Keit: Thank you, Richard Keit. This was a verbal report, I think it was requested by board member Gage. As you recall, several months ago we distributed and went over, I think we went over it twice, this huge sheet on all our receivables and that would be in your earlier packet. Loans due and revenue-generating activity. And what we came down to is, what is delinquent? And happy to report, out of 51 total items there are only ten items currently delinquent. We were very forceful in these last couple of months in trying to get some of the activities that were in arrears caught up to date. And we have been pretty successful. Some of that unfortunately was delayed due to our massive transition from a vibrant, 100-person agency to what we are now, about eight people. So I'll quickly go through these ten items. There is the single page handout you have and then

I'll be glad to answer any questions. It won't take long. The first item, the blue mango, we sent them a second notice. They were only in arrears one payment. They paid July, so we have reason to believe they somehow just missed that. And we'll continue to work with them. The second place is Peggie Sue's downtown, they are now still three months in arrears and the owner has been doubling payments until cleared. Has made a double payment already and we are holding them to their word on that. The next four are a little more problematic. As you can see they don't add to a lot of money. But we've sent explicit late notices, recently, and now, we're going to be working with the city finance department has a collection staff and we're going to turn these over to them. They have the wherewithal and the knowledge of how to deal with this, hopefully preventing going to court. That may be more expensive to use attorney time than to get this back. Just as one item on Teeney's out on the Alameda, they called and said there was a fire. They were unfortunately closed however they were in arrears before the fire so I have a little less sympathy for them. This Hale Ono cafe has closed but that doesn't alleviate their requirement to pay back the loan. So on those four, we are turning it over to the city collection staff and hope to get that paid up. Zanotto's is in arrears. They haven't made a payment in quite some time. But it was a very complicated arrangement we did with them when they closed their supermarket downtown and opened the Deli. They are well aware of it. They seem to be interested in paying off, and we'll keep you informed of that. If those talks don't proceed in what we believe to be a progressive manner we'll turn it over to the city collection folks too. The next item is the 108 loan. With Dr. Yu. We continue to follow up. We haven't received a payment since January. This is a principal -- I mean an interest-only payment until November when the principal starts kicking in. So we certainly would like to get them paid up. But if not we do have some club act provisions for even taking back the property. And we'll have to talk to our city attorney's office for how that pans out. But hopefully they'll just pay up. On the camera loan, they are in default. And again we are following up with the owner. He believed we made contact with them just last week again, that they weren't in default. We're trying to clear that up. Their monthly payment is only \$2500 a month but that default on those monthly payments triggers a much more complicated set of activities. So we left the dollar amount blank. We really would like to figure out. I'd rather give no number rather than new number but obviously you can figure out the 2500 from November what that would bring in. So again we would bring that to the board as soon as we get it cleared up and see if we have to trigger that higher amount or just get him to pay what there -- 2500 in arrears. The last item is extremely problematic and we will be discussing this with the staff attorney. It's listed as the Montgomery hotel. It's really the four-point hotel, Sheraton four-point. I

hear they're having financial difficulties, not because they're doing so badly on their occupancy rate, but because I think they've paid too much for the property. Even though it's part of Sheraton, it's a franchise group. And so we're going to talk to City Attorneys on how to deal with this very unique problem. And as you can tell, they're almost \$78,000 in arrears. So that total is about \$160,000 plus whatever the camera brings forward.

>> Donald Gage: Mr. Mayor if I may. Want to thank you first for report. The items, the blue mango through Zanotto's, it doesn't seem to be a whole lot of money. Would it be better to do another contract with them, rather than send them to a collection agency? Because if you send them to a collection agency, they are going to get what they can get. If you refinance or whatever you want to do, call in the loan, maybe spread out the payments, lowering the payments, eventually you're going to get the full value and that money will still come back. So I'm just wondering if that's worthwhile doing, some of the other ones that are large where there's \$3 million, \$3.5 million and, or \$1 million and \$2.7 million that's a little different story but you still have the property there. That has to have some value. But I'm just curious if renegotiating the loan would be more beneficial than putting it to a collection agency.

>> Richard Keit: Yeah, Arn will address that. The collection agencies are the collection staff of the city.

>> Right, I'll address the first part and then Richard can speak to possibly renegotiating the loans. The finance department in the City of San José has a well staffed collection staff and so when we talk about a collection agency it would not necessarily be outsourcing, it would just be leveraging existing staff and there is economies of scale. We would be seeking collecting dollar for dollar not having a collection agency take a percentage of it.

>> Richard Keit: To your other point we would be glad to look at it, as you said. Some of them are almost negligible and may not be worth it. I think what we'll do is talk to collection staff, have them give whatever notice they might of, in addition to our late notice would be a letter from me or our finance director. Maybe they have a better way of exerting a little pressure. And then if that doesn't work I think especially on the very small ones we would -- we could go back and ask them if they would be willing to engage. On several like that holly oak cafe, we think they think because they're out of business they are no longer in payment.

>> Donald Gage: Until they declare bankruptcy that's not the case, they still owe money.

>> Richard Keit: And they haven't, we have no notice. I think both processes are worth moving forward on.

>> Donald Gage: Mr. Mayor do you need a motion to ask them to go forward or can they just do it and come back to us?

>> Richard Keit: I think it's an administrative action right now. And then if --

>> Mayor Reed: I don't think we need to take any action on this at this point. When we get to the point of renegotiating and needing to talk to you about new terms that would come back I presume.

>> Richard Keit: Yes.

>> Mayor Reed: Although I assume even renegotiating is going to have to wait until the asset disposition process, isn't this another asset or does it only slow down real property assets?

>> Richard Keit: If they're not owned by us, I'm not sure. I guess we would have to have a legal decision.

>> Mayor Reed: I'm talking about the loans.

>> Richard Keit: Oh the loans, right.

>> Mayor Reed: Will that get caught up in the need to get everything approved before we could negotiate a new deal?

>> Patricia Deignan: It very well could, yes.

>> Mayor Reed: It may be a while before we renegotiate.

>> Donald Gage: I'm just looking at maximizing the income back to us, I mean, I know we have to dissolve, but do we have to take a beating while we do it, is my point. I mean, everybody wins if you can bring back the original amount where everybody loses if you don't because there's less money to distribute. So waiting a little bit, and taking that option, and getting the maximum money back to me seems like the prudent thing to do. I mean you know you can go out and you can do it two ways. You can just dump everything and forget it, and then say, well, that's the way it is, or you can try to maximize the return on investment and that makes it more reasonable. We're going to be here for a long period of time. So we have time to oversee this. It's not like the 1st of January in 2013 and we're dissolved.

>> Mayor Reed: Not quite.

>> Donald Gage: Some of us may not be here but we won't be dissolved. So I hear what you're saying, Patty, but I think if we work toward that, if it doesn't work, fine. Then you know do whatever you have to do. And when you renegotiate you can tighten that lease a little bit you know, and make their personal property, I don't know how that works, you have to talk to the attorneys. But something that gives them an option to pay back, you're being fair with them but if they don't pay, then they're going to end up -- penalties will be put in there.

>> Rick Doyle: Board member Gage, that's a very good point. I think I can speak personally on the Zanotto's, for example. That has a long history, it's been renegotiated many times, to your point, to allow them to keep current or make payments. And so that everybody sort of wins. And it's more realistic. I think administratively we can work with this and report back to the board. My own sense is to the extent there has to be a compromise or to the extent we need to at he's renegotiate we can look at that and then bring it back, and we'll make sure we tie in the new discussion.

>> Donald Gage: It doesn't work, we made the attempt, and we can say that, and that's more positive than just saying, yeah, we are going to dump the property and get what we can get. You make a last effort which as you go to court as you well know Rick looks good to the judge because you tried to negotiate a fair deal and it didn't work so now you know do your thing.

>> Rick Doyle: I won't speak for the City Manager or the Mayor but these are San José businesses and we have an interest in keeping them going.

>> Donald Gage: Certainly, they provide income for the city.

>> Mayor Reed: Any other questions, Don?

>> Donald Gage: Thank you.

>> I want to make sure I'm tracking this. The logic of the discussion is inescapable. I'm wondering if this, also, insulates us from James comment about fire sales going up and down the state. Because this certainly is moving in the most prudent direction in protecting taxpayer dollars. And city assets. And so is this exactly what you were talking about, the opposite of this happening, with these fire sales as the Department of Finance has commented?

>> Mayor Reed: Why don't you come on back to the microphone, James.

>> In a way, yes. I mean I think there's a lot of concern about especially real property being sold and not knowing the valuation, especially with the market being down right now for valuation of property. That there be an attempt to both maximize the value of property as well as make sure that sales are expeditious. Now, that particular mandate, that phrase, maximizing value and selling expeditiously was in ABX 126. But there wasn't a good sense of how to operationalize that. And I think this is a mechanism with the long term management plans to do that. It is

pretty fairly focused if you read it on real property. And a lot of the talk is very focused on real property. So I'm not sure to what extent these assets, accounts receivable, fall within the sphere of long term property management.

>> Right, I understand that and I understand what the level of detail we're talking about but I'm looking at the general public policy perspective and I think that the mayor's comments I think that Mr. Gage's comments I think staff's response talks about the level of responsibility in long term commitment to making this transition the most effective and the best in representation in all parties involved. Thank you.

>> Definitely it is in the interest at least locally and this has come up many times within this county, the local entities in this county have heard over and over again, are very focused on the long term maximization of value, and ensuring the assets, however they're handled, from a Redevelopment Agency, should be focused on that. There is a little tension because at the state level there is also a focus on the bill on meeting cash flow needs for the state for this fiscal year. And the way this 1484 seems to deal with that tension is to treat cash differently from nonliquid assets.

>> Mayor Reed: Anything else on this? There is no action necessary. Thank you for the report. We have one more report, that's May financial statements report.

>> Richard Keit: Right, two components to this. One, we modified the actual hand-out you're given, I don't mean the presentation, we'll go through that. We have the actual sheets, spreadsheets, the most updated ones. So if you just replace that, there were some minor errors in the other one. But even the mire error triggers as those columns add up, some differences so please utilize the one we just handed out today. There was a request from the oversight board on -- going through the monthly financial report, and I'm going to turn it over to Abe Andrade, who has dealt with this for many years as our assistant finance director and the finance director of the agency before dissolution. Prior to that I want to say to those of us, I know many of you are financial experts and we have everything from CPAs to people who run through the finances for their respective organizations. But these can be a bit arcane and we are willing to meet one on one with any board member that wants a tutorial. My experience with these is, even I've done budgets for many years, these four sheets can be quite confusing. Some are easier

to interpret without explanation than others. The four sheets are the balance sheet statement, okay, as I move forward, that one. That one. Okay. The balance sheets, statement of revenues, expenditures and change in fund balance, our statement of outstanding long term debt and fixed assets summary, with that I'll turn it over to Abe, and we'll go slightly -- we'll go through each sheet.

>> Thank you, Mr. Chair, members of the board, Abe Andrade, chief financial officer for the successor agency. I wanted to take an opportunity to highlight some of the information that's presented in the four financial reports that are included in your monthly package. In the past we have included these same reports on the consent calendar, and this time we wanted to take the opportunity just to go through and highlight some of the information on the various reports. Again, the first report which is attachment A in your packet is the balance sheet which provides a status of the Successor Agency's current assets, liabilities and fund balance. And again, the current assets includes the -- your cash and receivables, and liabilities, and the liabilities listed are those that become due in the current year. These all come down to what's called the fund balance in government accounting which is equivalent to your owner's equity distribution in a private company. In government accounting you're also asked to reserve for various liabilities that are coming due. And as in the second bullet there, you could see that our total fund balance at 5-31 totaled \$77.8 million. The major reserve or funds that are reserved are for the debt service payment and that's 69.3 million. That amount of debt service reserve including funding for what was expended on August 1st. It was for the August 1st debt service payment. In addition the agency carries three cash reserves for three different bond issues as required by the bond indenture. In addition, the agency has 7.3 reserved for enforceable obligations which are our contractual obligations. And then 4.3 million which is the reserve for long term receivables. Those are receivables that will not come due or received in the current year. So those are considered more deferred reserves or moneys that can be spent in future years. All in all, the last line I think is one to be focused on, and that shows that the unreserved or undesignated fund balance or balance is a negative, meaning that the agency is in a deficit position. And I think the key here, as when we return, these monthly financials are all interim financial reports pending the outcome of the financial audit on June 30th. I just wanted to point out that in June that unreserved designated for redevelopment activities number will grow significantly as the agency will be booking a couple of other liabilities that are coming due as current liabilities which include the agency's variable rate bonds totaling \$90 million. So that number will be reflected in that balance when we come

back and report-out on the June financials. The statement of revenues and expenditures is -- can you go back one? The statement of revenues and expenditures is the SARA's income statement. And it summarizes again the income and expenditures on a current-month and fiscal year to date basis. This all expenditures that are reported are shown on this exhibit, will be expenditures that are allowed and reported on the recognized obligations payment schedule as approved by the oversight board. Next. The next exhibit being the outstanding long term -- excuse me, okay. Let's go with the fixed asset summary. The summary of SARA's assets by fixed asset category. These assets are carried at a net carrying value. Meaning the first cost less depreciation. They include public facilities that have not yet transferred to the city. And the categories for reporting fixed assets include land, buildings and public improvements, construction in progress, and equipment. And that -- the total fixed assets for the agency is the \$183.9 million. Just wanted to point out that number does include some public facilities and right-of-way areas. And again that would differentiate from what the market value is of these -- of some of the land holdings that the agency is carrying at this time. On the outstanding long term debt service summary, this is -- again, the on the balance sheet which was the first statement that the -- that was shown, at a just represents and reports-out the current year obligations so including here is a summary of all of the agency's long term debt which totals \$2.4 billion, included is \$2.1 billion of long term tax allocation bonds. And approximately \$300 million of -- we have other long term debt and in that classification we include and report-out on the convention center bonds of \$129 million. The 4th street parking garage bonds, HUD 108 loan, the county settlement agreement obligation and the CRAF. And as those -- as the debt service on these long term debt obligations become due, those get reported-out on the income statement shown previously. And that concludes my comments, available for any questions.

>> Donald Gage: I just had a --

>> Mayor Reed: Question board member Gage.

>> Donald Gage: I don't work for the county anymore so I can feel free to ask this question. But the county settlement obligation of 23.6, that's just a one-year deal, right? There's also money that was owed to the county prior. Where does that show in here?

>> The 23.6 million represents moneys due the county from a 2011 settlement, court settlement, and then there's additional moneys come due to the county from the annual pass-through agreement.

>> Donald Gage: Right. So when -- how do you show that? Because you have pass-throughs more than just to the county.

>> Yeah, we -- on an annual basis what happens is, as a tax increment or in this case RPTTF, the redevelopment property tax trust fund moneys comes into the agency, we accrue for that pass-through obligation. When it's not paid in that current year then it gets transferred to the long term debt line.

>> Donald Gage: Along with a penalty, right?

>> Yes.

>> Donald Gage: And I'm asking this for myself and not for the county just so you understand that, thank you.

>> If I may just to add one more point on that. Once again in one of our working groups with the county as we started to conceptualize ROPS 3 one of the areas that we discussed is the concept of accrual. How do we reflect accruals to make sure that there's some type of way to memorialize exactly what you're talking about. And so for instance, with the county pass-through payment, in years that there are not sufficient funds to pay it, there will then be a sub-line below it showing and reflecting that accrual process. So that in future years when either the board is disbanded or when others are looking at these they know that items like that continue to be memorialized.

>> Donald Gage: I appreciate that because when you're dealing with the county it's -- you're really dealing with services that are not going to be provided to all the cities within the county of Santa Clara. And that's an important factor for the cities to understand regardless of who you represent here.

>> Correct and there are other items similar in nature like that, that it's going to be important to the future folks who are interpreting ROPS or analyzing ROPS that values like that don't get lost. And so in working with the county we think we've come up with a construct that will address that.

>> Donald Gage: Appreciate that, thank you.

>> Mayor Reed: Further questions or comments, Emily.

>> Emily Harrison: Not a comment, a question. On the statement of revenues and expenditures, under the housing debt service, could you explain the positive transfer-out?

>> Positive --

>> Emily Harrison: The transfer-out is showing as a positive which let's just say at least is counter-intuitive is there --

>> Mayor Reed: Can you clue the rest of us into where it is?

>> Emily Harrison: Attachment B, statement of revenues and expenditures, the third column over which is housing debt service towards the bottom you have other financing sources and uses. There are transfers in which are positive, that makes sense. And in the housing fund there is a transfer out which is also positive which means it's sort of doubled in terms of being able to -- to be a financing source. And that is odd to me. So I just would like to understand it.

>> Mayor Reed: And if I followed this correctly, that's \$86,866,000 and change, is that the transfer-out?

>> Emily Harrison: No, \$11,794,425 is a transfer-out, but it's positive. But it's positive, so in essence it's an income item rather than a transfer-out.

>> Mayor Reed: Okay, I'm with you, okay, anybody else trying to figure out where we are, Abe?

>> Emily Harrison: It is very hard to zoom down but --

>> Mayor Reed: Abe, did you want to respond to that?

>> I can come back with the clarification on that. But what we've done is, there's some modifications to our reporting of the housing's financial information as we consolidate these funds into SARA's financials. So let me come back with a detail on -- and I'll provide the details to you on what that number represents.

>> Mayor Reed: Any other questions or comments on the financials? This is not an action item. It's just a report.

>> Emily Harrison: The comment is just thank you. Very much appreciated for those of us who really do like to read financial statements, it's a big plus so thank you.

>> Mayor Reed: That would be all of us. Certainly. (laughing) okay. I think that's it on the reports. Unless there are any other questions on anything we've covered that we need to go back to. Future agenda items? Anything else that we want to tee up for future that we haven't already discussed? Open forum, are there any requests from the public to speak? I guess then we are done with our work so that means we're going to adjourn. Thank you all very much for attending.