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>> Mayor Reed: Good morning, I think we can get the meeting to order. We have a quorum. I'd like to welcome a couple of alternate members who are sitting in for the first time. Emily Harrison for the County and Tony Estremera for the Santa Clara Valley Water District joining us for the first time. But I'm sure we'll get the principals back from time to time. Our first item is to consider the agenda order. Any changes to the agenda order or anything that's not on the printed agenda that we ought to talk about? Okay, nothing to do on that, there's no closed --

>> Excuse me, Mr. Mayor, one of the things I would like to discuss at an appropriate time is the form and format that we receive information. I would like to suggest that even though we make decisions off of audited information, if there's a possibility of getting some of the information in a slightly more readable form earlier in the process it would certainly facilitate us being able to understand -- those of us that don't deal with this on a regular basis, would facilitate us understanding what is coming forward, even it is a DOF form, it is audited by the county. I think if there's a display of information a little bit differently it could facilitate the process.

>> Mayor Reed: If we could get the staff to talk to you afterwards about formatting 80 and ways to do that that would be --

>> That would be fine, Mr. Chair, thank you.

>> Mayor Reed: We have minutes from May 3rd meeting to consider. Are there any changes or comments or corrections, et cetera? Need a motion. Motion to approve the minutes. All in favor? Opposed? None opposed, minutes are approved. On the consent calendar, we have the monthly financial statements, the audit status and work plan status. Any discussion on any of those items? No action, Martin, I'm sorry do we take action on these consent calendar items?

>> Richard Keit: No, not necessary.

>> Mayor Reed: Nothing to do. Section 6 actions for discussion and action. We have changes to successor board appointments and related action items. We have changes of board membership and we need a new vice chair because supervisor Cortese is no longer on the board. I'd be happy to accept a volunteer for vice chair, if somebody wants to be the volunteer for the vice chair.

>> Mr. Mayor, if I could, I would like to nominate Ken Shelton for the vice chair, and I also wanted to let the board know that the county will be making hopefully its last changes to its membership on July -- at our last meeting, excuse me, in June. So we may have yet another new face here.

>> Mayor Reed: Okay.

>> And I second.

>> Mayor Reed: Okay, we have a nomination and a second. And no objections?

>> Thank you, thank you for looking to see if I objected.

>> Mayor Reed: I think you're out-voted. So on that, Ken Shelton for the vice chair. All in favor, opposed, none opposed, that's approved. Mr. Vice chair, thank you. We have some changes on the resolving on conflict of interest code reflecting the changes of the board membership. Anything else on that code? We'll need a motion to approve the changes, then, I think.

>> So moved to adopt a resolution to amend the conflict of interest code to accommodate the new board member and alternate board members.

>> Mayor Reed: Okay, we have a motion to approve those changes. All in favor, opposed, none opposed, that's approved. 6.2, need to approve recognized obligation payment schedule known as the ROPS. And we do all kind

of ROPS and re-ROPS so maybe staff needs to explain where we are in the ROPS process. Just a little bit I think.

>> Richard Keit: Richard Keit. Managing director of the successor agency to redevelopment. You said it appropriately Mr. Chair. So ROPS is -- I said it at the staff level. I'll say it in public. In over 30 years in government this is just the most confusing set of instructions we've had, and we've worked very well with county finance staff, our staff, all levels of city staff, finance department, and even the Department of Finance with the State, who has spent an inordinate number of hours. There's been no precedent for this before. So we're kind of doing it as we go along, which goes to Mr. Shelton's concern maybe that there's no basic format. And we've had to change it many times. So before you, well let me get a little bit into the process. What is supposed to happen is that we have certified from the county finance, county auditor-controller, a certified copy of each ROPS, and then the oversight board approves it hopefully and then we take it to the state Department of Finance and then this have ten days to review it. Because the state was inundated with up to maybe 400 of these, they asked for those at an earlier time, and we complied, along with the county, that gave them drafts, so they had an opportunity to review. So where we are in the formal process is on ROPS 1 which we made large copies, it's been -- it's attached to -- and it was transmitted to all of you electronically, but ROPS 1, and it doesn't have the cover letter from Vinod Sharma because it's already in your packet, is the first one and then we have ROPS 2 with Irene Lui's letter certifying it. So the county has certified both of these. ROPS 1 we had to recertify based on DOF's concerns with format issues. And as we proceeded, we also made some changes that are outlined in the memo. But both are certified, and we're looking forward to your approval. Once these are approved by the board and signed by the chair, we would again send these to DOF immediately, today, and they already have reviewed both of these, but they have not formally sent back their stamp approval. I imagine because of the volume they have it will take a few days to get back to us. But we have a single point of contact at the Department of Finance and working through it from all angles. Which that I'll turn it back to the board for approval.

>> Mayor Reed: I think our executive director has a comment.

>> Debra Figone: So Richard, in terms of the board as the fiduciaries of this process, under the law, they, in addition to their own review and questions which will be satisfied, are relying on the objectivity of the certification process as sort of the technical basis, and again, assurance that all things are according to the law and appropriate, is that in essence what they have as their foundation?

>> Richard Keit: That is correct.

>> Debra Figone: Thank you.

>> Mayor Reed: All right. Any questions on the ROPS or the re-ROPS items? I know that the county staff, and city staff, have spent a lot of time trying to get it sorted out, and we're down to the wire here with what the State wants. So hopefully we can do this today and get it in, the state will be fine with it. Any questions on it? If not, is there a motion?

>> So moved.

>> Mayor Reed: We have a motion to approve the staff recommendations. We do, yes.

>> I'd like to make one additional comment. I do appreciate the technical review, both by the successor agency and by the county. And recognize that the format is the prescribed format. I think there is a tremendous amount of reassurance, at least in my opinion, that any differences of opinion are in fact resolved between the two staffs and that we get a fairly clean report. And so my earlier comments does not reflect on the accuracy or the appropriateness. It's more, and as our chair said, if we can get some resolution on some preliminary reports, as opposed to the certified, that's all that I'm interested in. But I do appreciate the work that is done on this. Thank you.

>> Mayor Reed: All right. We have a motion to approve the two items. On that motion, all in favor, opposed, none opposed, those are approved.

>> Excuse me, Mr. Chair.

>> Mayor Reed: I hear a voice, Dennis Hawkins.

>> Dennis Hawkins: Thank you sir, I didn't catch who made the second. Thank you.

>> Mayor Reed: Item 6.3 we'll take up regarding the J.P. Morgan letter of credit extension. Julia Cooper.

>> Julia Cooper: Good morning. Chair and members of the board, I have a brief presentation for you on the J.P. Morgan letter of credit renewal. It's to help provide a little more background for you. The staff and the mayor are very intimately involved in the J.P. Morgan letter of credit renewal. But I thought, in terms of giving you some background, it might help kind of understand an important piece of the former Redevelopment Agency's credit and outstanding debt. So the J.P. Morgan letter of credit that's before you today for approval to enter into the extension has some terms associated with it. As background there's four series of bonds totaling \$94 million outstanding that are backed by four different letters of credit provided by J.P. Morgan. Under the terms of the proposed letter of credit extension, the new expiration date will be July 1st, 2013, and the annual commitment fee will be 2.25% or 225 basis points. And that fee is contingent on rating upgrades and downgrades. So to the extent that the former Redevelopment Agency rating is upgraded, the fee would decrease. To the extent that their rating is downgraded, the fee would increase. Up to maximum amount of 3%. J.P. Morgan currently holds \$5 million in cash collateral as security against shortfalls in debt service, and that \$5 million would stay in place. Additionally J.P. Morgan has first lien on 17 properties owned by the former Redevelopment Agency, and 100% of those proceeds would go towards the redemption of outstanding bonds associated with these letters of credit. That is a condition of their extension. And failure to renew or replace the letter of credit makes the full amount due and payable on the expiration date. So just to give a little bit of background on that demand structure associated with the letter of credit, it's a little unique. Some letters of credit and bonds associated, variable rate bonds associated with letters of credits have term-out provisions. These bonds don't. So what happens is. When the current letter of credit expires on July 1st of this year, and without a renewal, that \$94 million is due and payable. So what that

means is all moneys after senior obligations were paid, all those dollars would have to be pledged to go to repay the J.P. Morgan debt. And during that period of time, the interest rate would accrue at a default rate of 11.5% compounding on any outstanding balance until it's completely paid. So it has a pretty significant impact on the cash flows for the former Redevelopment Agency. So to help illustrate this, we have this chart here. And I'm going to kind of walk through it, because it's -- there's a lot of information there. Right now, there's some different interpretations of ABX 126 on property tax distribution and use. So there are several scenarios that are shown up here. And scenario 1 is the scenario that we have presented to J.P. Morgan and is the base of their credit analysis to extend the letter of credit. So under this scenario, there's about \$184 million of tax increment revenue that's available. And there's certain things that, quote, come off the top. And when I say off the top it's before the tax increment is passed to the city or the former Redevelopment Agency. But it's really at the bottom of the bar stack there. So it's that \$4.4 million in purple. And then the blue is all of the senior debt that's outstanding. And then the yellow is the subordinate debt that's outstanding which includes this letter of credit with these bonds backed by the J.P. Morgan letter of credit and an additional housing piece that's subordinate as well. And then the orange is where we have our convention center and 4th Street garage obligations. And then green is where we have our ERAF and HUD, and then the top is our other enforceable obligations. So as you can see, under the scenario that we presented to J.P. Morgan as part of their credit analysis, where the revenue piece comes in, they were clearly being covered by the sufficient revenue. And the obligations are kind of above that blue dot were being covered essentially through the city through some contributions from the General Fund. Under scenario 2, this is where there's a different interpretation in looking at the legislation with respect to the county pass-through. If it, quote, comes off the top as you can see at the bottom of the bar there, instead of \$4.4 million, essentially passing -- essentially being deducted from our revenue coming in it would be over \$20 million. In addition to that happening, there's some other issues associated with deductions from the amount of tax increment, former tax increment that we would be receiving. So that reduces the \$184 million to \$177 million. So we have a reduction of the amount coming from higher expenses and a reduction in the amount of revenue coming in. So what you see there is now you see the blue dot in the yellow zone, and the yellow zone is the part of the graph that pays for both the J.P. Morgan debt and the Wells Fargo debt on the 20% housing set aside. So we're working really hard to hope that that interpretation doesn't come true because J.P. Morgan may in fact have a different credit analysis with respect to extending the letter of credit which puts us not third bar which creates

the J.P. Morgan acceleration which basically means they get everything until the debt is paid off. And as you can see, that puts the whole \$94 million in play. So just thought to kind of give a background on how important it is for us to kind of continue to work to make sure we have sufficient revenue coming in to pay our senior and our subordinate obligations to our bond holders.

>> Mayor Reed: Yes.

>> I'm sorry, you may have addressed it, and I just missed it.

>> Julia Cooper: That's okay.

>> When you say there are varying interpretations of ABX 126, who are -- and you've shown the effects of these interpretations. Who's making the -- who's doing the analysis and has final resolution of that interpretation?

>> Julia Cooper: I'll defer to the City Attorney.

>> Rick Doyle: There's conversations going on right now between the county counsel and myself. We've had discussion best the effect of what's called the waterfall and how the moneys come out, and the issue is whether or not the county pass-through agreement which historically has been subordinate to all debt, of the former Redevelopment Agency, because of the statutory language, does it leap ahead in some respects or is it not to be -- those amounts aren't to be put below these other obligations because there's no deduction. So we've had this conversations, the conversations aren't going. I have a voice mail from when I came into the office this morning from the county counsel. I've got to get back to him. But it's going back and forth. So in some respects I'm saying stay tuned. I think the optimistic side of me says, we've worked a lot of this out in the past, as I think you indicated earlier, the county staff and the city staff working well together, but this is an issue, and it's a serious issue.

>> Let me ask a slightly broader question. If this is an area of interpretation, and I realize that in Santa Clara County we're a bit ahead of most of the state, is this an issue that's going to be of interpretation, a legal

interpretation that is going to affect other redevelopment successor board agencies here in Santa Clara County and in broader sense, the state, and is the resolution between county counsel and city counsel, one that could be superseded by some other interpretation including -- up to and including the attorney general's office?

>> Rick Doyle: It's a case-by-case basis, in my view, in terms of the impact. The one thing unique about the former San José Redevelopment Agency is there was an enormous debt. And so as a result, you see there isn't any surplus to speak of. Even without -- even if you assume that the passive agreement and amounts under there are subordinate to the other debt. I don't know all the other -- the statutory interpretation is going to have an impact. If it's -- but what the impacts are, who has passive agreements, who has subordinated passive agreement. It really comes down to each unique situation. Whether or not the attorney general chimes in, or it becomes something that there's litigation and a court decides, that's on hold. But I should let you know there is some litigation on other aspects of -- that has been filed in Sacramento by other Southern California agencies. Because the DOF has taken certain interpretations, Department of Finance. So this thing is a work in progress and we're all sorting through it.

>> Appreciate the clarification. Thank you.

>> Mayor Reed: It is a work in progress in sorting through it but J.P. Morgan and our creditors probably have our own view of the world and they always want to be first in line. That's their view. Typically. So you know, they are obviously going to be engaged in this issue.

>> Julia Cooper: And we have been engaged in active conversations with J.P. Morgan. Earlier this week and again today, later today. So with that I have on the final slide is a summary of the recommendations that we have before you today. We are moving forward to hope to have this letter of credit executed by June 6th, which is the deadline in order to process all of the paperwork before the July 1st expiration date.

>> Mayor Reed: Thank you. Well I'm going to express my thanks to J.P. Morgan. They've been engaged in this financing since 1996, and have enabled us to have a much lower borrowing rate on these bonds, which is the

reason we did this letter of credit thing. And we appreciate their willing to extend despite all the uncertainty in California law and everything else that's going on, the fact they're willing to extend for the next year we appreciate that and look forward to getting this all resolved and moving ahead. But these are the terms that they're willing to - to do. And I know that staff has had some negotiations with them over those terms, and we're in a position where this is the best we can do, I think is pretty much where we are now. So any question, other questions on the recommendation or the package? We need a motion, then. I have a motion and second to approve the recommendation. On that motion, all in favor? Opposed? None opposed, that's approved. Taking us to item 6.4 we're going to take up after the verbal report on Successor Agency non-real property assets. Richard Keit. That's 7.1.

>> Richard Keit: Thank you. I'd like to preface this, that this is -- we said we would come back to the board. We did several -- at the last meeting we went into quite a bit of detail on our real property assets, which is certainly easier to come to terms with than this. There's assortment of programs the agency's had over the years to really help facilitate both commercial and housing development primarily in and around the downtown. So what we did is, I have a soft presentation, but we have also -- have an easy spreadsheet. And another prefatory remark I'd like to make is this is a lot to digest at one time and we know that. So certainly after we go through the presentation or at subsequent meetings, you could come back and if you have any questions about a specific item within this, although Kelly Highland our realtime manager and Tom Murtha, attorney are both here if you have any immediate questions. So first I'd like to start out with the small business loan program. There are 15 outstanding small business loans, commercial loans that we have. And they're listing there and they're listed in the chart too with current balances. All of these loans will be paid off, assuming they're fully paid, except for two, in 2014. So in several years. One is due, matures in 2013 and one in 2019. So that total amount of money will be available. If there's any in arrears what we typically do is call them, write a letter, and for any of these that I'll talk to you throughout the whole process, if there are some in arrears, we'll put that together for you at the next meeting. Because we may have to go into closed session if we have to take legal action. We also, the Department of Finance and the city has a collection component, and then there's a private collection agencies we could turn these over. In our whole portfolio we think there's very few that warrant that level at this time, but -- and that may be a discussion with the board that has to make ultimate action upon staff recommendation. So these

are a small business program, like I said there's 15 of those. And all but -- there's four that we're concerned that are in arrears. We have a commercial business loan program as well, that you can see from the table, has substantially more money. However, this, and the next column, the revenue participation, every one of these was individually negotiated and designed. So they all have different terms. There's no set way to do it. One of the benefits of redevelopment law, which gave us the ability to do that over the years, and the whole focus on that program was, again, to incentivize businesses downtown, primarily, and to rehab buildings. And sometimes we did that in coordination with our facade program. The top five from the Leticia building up, we received current revenue streams. And -- to pay off those loans. So bottom, one two three four the bottom 3 I'm sorry, from Zanotto's down, quilt museum, black sea gallery, all have unique terms where they're only paid at certain milestones that have occurred, or either it's a timing issue or a balloon payment. So for all intents and purposes those three won't be paid off any time in the near term. On the revenue participation side, is a program that where we did development agreements or owner participation agreements, legal terms that we've used with the Redevelopment Agency for years, where we've again assisted private development downtown. And those terms are unique, as. So in 2011, you can see there were no revenues and primarily it was based on if in the case there'd be net operating income dependent, in the case there's gross operating income like the Montgomery hotel, they hadn't paid in 2011 however that is one we will be going after and seeking the revenues that are owed to us for the 2011 year. The bottom several, the housing ones are all predicated on if there's net proceeds from condo sales, which hasn't occurred yet. The globe was turned into a rental project with the blessing of the Redevelopment Agency. So we'll only be getting rent from the retail which hasn't materialized yet because it's based again on not gross receipts but on net retail payments. The 88 is the same way. The condo sales are now substantial, and we do anticipate some pretty good revenues in 2012, because they had a tough time selling. I've heard they're up around 70% sold now, so we should see, this year, some substantial revenue coming in on that one. And then, the loss has a unique one a project out in the Alameda, because they came online in a tough time for sales. There were seven units they turned into rental housing and until they become, in 2013, for-sale units, although they're willing to entertain for-sale units at any time, when they come into for-sale units we would receive some revenue participation. And again on the paseo villas, we are waiting to review that one as well as the gross revenues paid quarterly. So I'll move on to the next category. There's only four home buyer programs outstanding. They are different, within that we have three different programs, Carnegie Square housing is a

project on 24th Street that we funded quite a few units for loans, second loans to low and moderate income families. We are down to one loan, you can see, that has an affordable restriction and with only a current balance of \$20,000. We had an active first time home buyer program we're down to one unit, it's \$25,000 owed on that unit. At one time we had 27 of these and it was a very successful program because the way it was termed is if anyone refinanced or sold the unit we would get the revenue. So the other 26, we have gotten funding over the years because they've refinanced or sold the unit. The two bottom ones, and they're combined there on the chart overhead are two different owners. You can see, Dana Grover and JosÉ Castellanos. They were rehab programs that had current balances as shown of 57,000 plus and 75,000 with \$3,000 -- I mean 3% per annum over the first ten years and principal interest due and payable in 30 years. So you can see those have long term maturity dates. And we can come back to any of these if you want either more specificity now or, as I said, at a future meeting. The next three items are three projects that buildings downtown, prominent building where we thought it was necessary to put funding in to improve the buildings, upgrade them. And these are all HUD section 108 loans, not to be confused with section 108 housing loans that the county housing authority does, that are repayable. And so for our part, there is no debt on this. It's passed through that. The agency is obligated to pay these three, property owners pay us and we pass through that on to the federal housing and urban development department. And then it shows the terms of the loans. The last category in this group is --

>> Mayor Reed: Got a question Emily? Your microphone is not picked up.

>> I notice that the loan balances on your presentation don't match those on the chart in front of us. The current balances.

>> Richard Keit: The ones on the chart are correct. And we'll rectify that.

>> And just a comment on the first page on loans. I think it's useful information to know, as you've shown here, when the original loan was made and what the original balance was to give some sense of perspective as to how far it has been paid down. So if we could see that maybe at a future date.

>> Richard Keit: Yeah, we'll provide that even before the next meeting so you'll have it send it out on a single chart like this with those columns, that makes perfect sense for me.

>> Mayor Reed: I think we'll put it on the agenda for next meeting. If there are any questions we can talk about it.

>> Richard Keit: That's fine. There's no action to take on these as of now anyway.

>> Mayor Reed: Some of these are interesting, people might want to think about it and come back and say what was that about.

>> Richard Keit: Correct, absolutely. And at the same time we can go through what's in arrears and what we need to do to bring them current on their loan payments. The last group is historic houses that may have been torn down, if we did not get occupants in there. Even though, through preservation we were trying to do everything we can to save these homes, and we did. We also had an active program of moving historic homes off of properties into places that we thought would be better location and would preserve these homes. So there are 13 of these homes. You can see the current balances, they're again, and all ten of these, I'm sorry all 13 of these, there's really no revenue to be had, if these owners maintain, keep ownership of the home over a ten-year period, 10% is deferred every year. And we can, on the next chart, we can put in how many years they're in -- have been deferred to date and give you that level of detail. But this would be the outstanding balance if the borrower were to sell the house now. Than concludes the presentation.

>> Mayor Reed: Okay, any questions today? We'll put this back on the agenda next time so you can have a chance to think about it Emily.

>> Not a question so much as a comment. I have the pleasure of observing most of the oversight boards in the county. And this presentation probably stands out for the appropriate use of Redevelopment Agency tax

increment funds, to eliminate urban blight in terms of comparison to the way redevelopment funds have been used across the county. So congratulations to the agency.

>> Richard Keit: We appreciate that.

>> Mayor Reed: It appears to have been the case across the state of California as well. But -- any other questions or comments on it? So we'll bring this back on the agenda next time just for the opportunity to talk about it if there is anything. No action on it today but we'll go back now to item 6.4 which deals with one of those items on this list, I believe.

>> Richard Keit: Correct, thank you, Mr. Chair. As this is the Morocco restaurant, the former leal name was the Oasis spot. We're asking the board to defer for seven months, their \$900 payments. One of the reasons was -- for two reasons staff is recommending this. The primary reason is, they are paid to date. They have been a good payer all along. They borrowed \$50,000 and they are down to \$21,689 and change. They tried to renegotiate their lease downtown, they lost their lease, they couldn't renegotiate. And they do have an active restaurant in Mountain View, if you want to -- but they are trying to locate, relocate downtown and open another restaurant. This deferral is not contingent upon them relocating or not. So if they can't find a suitable location we're still saying that in January, 2013, you have to make your permanently. But they've asked for a stay, if you will, to defer for seven months. And so we are recommending that.

>> Mayor Reed: Any comments or questions? I had one question. The terms of the loan is this a balloon payment that's due or can they extend it and continue to pay it?

>> Richard Keit: No, it would extend it. They currently would be paying -- it's a 16-month loan. They've paid -- I have the details on that. They've paid, like I said, up to date and it would push it out another seven months.

>> Mayor Reed: So it would be fully amortized?

>> Richard Keit: Fully amortized, and 3% interest on the schedule.

>> Mayor Reed: Any further questions or comments? None, we need a motion.

>> I would move staff recommendation.

>> Second.

>> Mayor Reed: All right, we have a motion to approve staff recommendation for the extension. All in favor, opposed, none opposed, that is approved. Future agenda items, we already talked about bringing back the list of assets. Anything else board members would like to have agendaized besides all the other stuff that we're working on? Open forum, anybody that -- I have no cards, no requests to speak, nobody wants to speak on the open forum, I guess we're adjourned, we're done, thank you all very much.