

OAKLAND OVERSIGHT BOARD

MEMORANDUM

TO: Oakland Oversight Board

FROM: Fred Blackwell

SUBJECT: West Oakland Loan Repayment

DATE: July 29, 2013

ITEM: #4

RECOMMENDATION

Staff recommends that the Oversight Board for the Oakland Redevelopment Successor Agency (“ORSA”) adopt a resolution finding that the loan indebtedness of ORSA to the City of Oakland for West Oakland redevelopment projects financed by the City is an enforceable obligation, finding that the loan was for legitimate redevelopment purposes, and approving the repayment schedule for the loan.

EXECUTIVE SUMMARY

Pursuant to AB 1484, the amended state legislation dissolving redevelopment agencies, loans between the Redevelopment Agency and the City are now deemed enforceable obligations, and thus payable from Real Property Tax Trust Funds (“RPTTF”) over time, since ORSA has received a “finding of completion” from the California Department of Finance (“DOF”). Per AB 1484, loan repayments are made pursuant to a loan repayment schedule and are subject to certain maximum payments and interest rates. The City must set aside 20 percent of any loan repayments for affordable housing.

Redevelopment funds totaling \$2.69 million were committed to pay for certain public improvements and grants to private entities in the West Oakland redevelopment project area via a 2004 Cooperation Agreement and a 2011 Funding Agreement between the City and the Redevelopment Agency. The City self-financed the cost of this work from General Purpose funds with the understanding that the Redevelopment Agency would use redevelopment funds to reimburse the City for its costs; however, the redevelopment funds have since been swept to the taxing entities following the completion of the “Due Diligence Review” of available non-housing assets by the DOF, and has resulted in an outstanding unpaid loan debt to the City of \$2.69 million, plus interest. The proposed resolution affirms that the Oversight Board recognizes that the loan indebtedness from the City to the Redevelopment Agency, now ORSA, for the West Oakland project funding is an enforceable obligation, makes the required finding that the loan was for legitimate redevelopment purposes, and approves the loan repayment schedule for amortizing this debt which has been approved by the City Council and ORSA board. Loan

repayments will be included on the ROPS, with an initial payment planned for the ROPS 13-14B period (January-June 2014).

OUTCOME

Adoption of this legislation will approve the West Oakland loan, as well as its repayment terms and schedule. Under the loan repayment schedule, funds will be repaid to the City totaling \$2.69 million over a scheduled term of three years with interest, of which 20 percent – or \$537,907, plus interest – will be set aside for affordable housing.

BACKGROUND/LEGISLATIVE HISTORY

On June 27, 2012, the State legislature passed a budget trailer bill that clarified and amended certain portions of ABX 26. The trailer bill, among other things, provides certain benefits to successor agencies that have made specified payments and have received a finding of completion from the DOF. A successor agency is eligible to receive a finding of completion upon making three payments: the July 2012 “true-up” payment, the Housing Due Diligence Review (“DDR”) payment and the Other Funds and Accounts DDR payment. ORSA has made all three payments totaling \$62.5 million and received its finding of completion on May 29, 2013.

One of the benefits of receiving a finding of completion is that the law now recognizes loans from redevelopment agencies to sponsoring cities as enforceable obligations, in contrast to the prior rule that with certain limited exceptions, agreements between redevelopment agencies and cities were not recognized as valid enforceable obligations. In order for a loan to be recognized, the oversight board must make a finding that the loan was for legitimate redevelopment purposes. Other restrictions apply: (1) the interest rate is limited to the rate earned by funds in the Local Agency Investment Fund (LAIF), (2) the term of years must be “reasonable”, (3) loan repayments may not be made until FY 2013-14, (4) the maximum repayment amount each year is limited to one-half of the increase in RPTTF distributed to taxing entities from the FY 2012-13 base year to the repayment year, and (5) 20% of any repayments must be set aside for affordable housing.

On July 1, 2004, the Redevelopment Agency and the City entered into a Cooperation Agreement and on March 3, 2011, the Redevelopment Agency and the City entered into a Funding Agreement; both of these agreements provide for Agency reimbursement of City expenditures related to redevelopment activities, including capital projects and other redevelopment programs. Upon the dissolution of the Redevelopment Agency, there were approximately \$2.69 million worth of West Oakland project and program expenditures that the City incurred under these agreements for which it is now seeking repayment. Similar expenditures in other project areas will be backfilled with the excess bond proceeds; however, there are no excess bond proceeds available to satisfy the debt to the City for the West Oakland projects, since tax allocation bonds were never issued for the West Oakland project area.

PROJECT/PROGRAM DESCRIPTIONS

Various projects and programs were funded in the West Oakland Redevelopment Area through funds advanced by the City totaling \$2.69 million. These public improvements and grants to private entities were used for legitimate redevelopment purposes as described below. Please see *Attachment A* for a detailed list of the project and program expenditures.

The single largest expenditure was for the design and rehabilitation of the West Oakland Teen Center, which totaled \$1.86 million. These were matching funds for a much larger allocation from Proposition 84 grant funds totaling \$5 million. The location was formerly a church located at 3233 Market Street and suffered from several blighting conditions. It was vacant for more than six months which contributed to economic and physical blight on this block of Market Street. Several major building systems, including alarm, security and plumbing were obsolete and needed replacement, including the building's roof joist, which was damaged by a fire. Aside from alleviating blight conditions, the project benefits the project area and meets redevelopment purposes by increasing services available to teens, which will reduce crime and vandalism in the area, a major deterrent to business retention and attraction. By improving the physical environment for residents, business and property owners in the area, property values, as well as business interests and revenues will increase.

The second largest expenditure is a public improvement project for the design of Phase II of the 7th Street streetscape project, totaling \$332,000. These funds also match a Federal OBAG construction grant allocated through MTC and Alameda CTC totaling \$3,288,000. The project includes lane configuration, traffic signal modifications, paving, sidewalk, curb and gutter work, street furniture, street lighting and other pedestrian and ADA improvements. Once completed, the project will assist in the elimination of blight by improving functionality and aesthetic appeal along 7th Street.

Other expenditures totaling just under \$450,000 involved grants to private entities that paid for capital improvements under the Redevelopment Agency's Neighborhood Projects Initiative program, Façade Improvement Grant program, or Tenant Improvement Grant program. These programs were designed to improve or eliminate conditions of physical blight in the West Oakland Redevelopment Project Area and advance redevelopment purposes as follows:

- Neighborhood Project Initiative program: funds grants for small, one-time, community-initiated physical improvement projects, such as murals, tree planting or street lighting.
- Façade Improvement program (FIP): funds matching grants and design assistance to existing businesses and property owners for the purpose of making storefront and façade improvements. The FIP is intended to restore the exterior of historic buildings, update and modernize the exterior of older buildings for reoccupation, promote retail activity, improve the pedestrian experience and help support other redevelopment projects by enhancing the general appearance of surrounding properties.

- Tenant Improvement program (TIP): provides incentives to attract businesses to targeted locations by offering property and business owners matching grants for improvements to the interior of retail spaces.

Finally, funds totaling \$50,000 were used for a contract through Cypress Mandela Training Center to eliminate graffiti on private properties. Graffiti abatement is expressly recognized as a redevelopment purpose under redevelopment law.

ANALYSIS

1. WEST OAKLAND LOAN REPAYMENT:

As stated above, upon receiving a finding of completion, loans between the former Redevelopment Agency and the City are repayable starting in FY 2013-14, and can be included as an enforceable obligation on the ROPS. The outstanding indebtedness to the City under the Cooperation Agreement and the Funding Agreement for the West Oakland projects qualifies for repayment from RPTTF. However, there are certain parameters that must be followed:

- Loan repayment may not be made prior to FY 2013-14;
- The annual repayment amount is limited to one-half of the increase between the amount distributed to the taxing entities in that year and the amount distributed to the taxing entities in the FY 2012-13 “base year”;
- Loan interest rates must be based on the current Local Agency Investment Fund (LAIF) rate, and the term of the loan must be for a “reasonable” number of years; and
- Twenty percent of the loan repayments must be transferred to the Low and Moderate Income Housing Asset Fund.

The following chart demonstrates that there is projected to be enough residual incremental growth in RPTTF to pay the \$2.69 million loan back over a three-year period. The term of the loan will provide for some flexibility in the repayment to allow for the possibility that one-half of the increment is not enough to cover the scheduled payment, and to accelerate the repayment if the increment exceeds a certain threshold in any given year.

Chart 1: Loan Repayment Analysis and Schedule

	FY 2012-13 Base Year	FY 2013-14 Estimate	FY 2014-15 Estimate	FY 2015-16 Estimate
Gross RPTTF	115,633,366	117,946,033	120,304,954	123,914,102
County Admin & Pass Through	(17,768,196)	(17,691,905)	(18,045,743)	(18,587,115)
ROPS	(65,173,770)	(63,573,511)	(57,227,314)	(62,105,703)
Residual	32,691,400	36,680,617	45,031,897	43,221,284

One-Half Residual Increment	1,994,609	6,170,248	5,264,942
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Loan Repayment Schedule

	FY 2013-14	FY 2014-15	FY 2015-16	TOTAL
Principal	896,511	896,512	896,512	2,689,535
Interest	5,071	5,071	5,070	15,212
TOTAL	901,582	901,583	901,582	2,704,747

March 2013 LAIF rate 0.28%

2. **SOURCE OF FUNDING:**

The source of funding for the West Oakland loan repayment will be Redevelopment Property Tax Trust funds (formerly tax increment).

3. FISCAL IMPACT

It is critical that the City's constrained General Purpose Fund be repaid for the West Oakland loan,. Repayment of the \$2.69 million loan will total \$2.15 million, plus interest to the General Purpose Fund, and a deposit of approximately \$538,000, plus interest to the City's newly-established Low and Moderate Income Housing Asset Fund for affordable housing projects.

All projects and programs funded with the loan were for redevelopment purposes intended to reduce or eliminate blight in the West Oakland project area. Implementation of these programs benefited all taxing entities by improving improved property values and encouraging private investment in the area.

For questions regarding this report, please contact Sarah Schlenk, Administrative Manager, at (510) 238-3982.

Respectfully submitted,

/s/

Fred Blackwell,
Assistant City Administrator

Attachment A: List of Project and Programs Expenditures for Repayment to the City.

Attachment A

WEST OAKLAND				
FUNDING AGREEMENT				
	Project/Program Description (Project Area EOPS Page-Line)	Amount	3rd Party Vendor/Contractor/Grantee	3rd Party Contract Date
1	West Oakland Teen Center (WO 1-10 thru 1-12)	1,860,904.00	Swinerton Builders; Gerson/Overstreet Architects; Prop 84 Grant	1/19/2012; 6/1/2007, 1/12/2010, 8/1/2011
2	7th St Streetscape, Phase II Design (WO 1-18)	332,000.00	Urban Design Consulting Engineers	1/27/2012
3	Neighborhood Projects Initiative - Dumping Apprehension (WO 2-33)	32,046.01	Bay Alarm	12/13/2011
4	Neighborhood Projects Initiative - San Pablo KOB (WO 2-34)	4,999.50		
5	Neighborhood Projects Initiative - St. Andrews Park (WO 2-35)	75,000.00	East Bay Community Recovery Project	1/20/2012
6	Neighborhood Projects Initiative - San Pablo Street Trees (WO 2-36)	73,297.00	West Oakland Green Initiative	1/20/2012
7	Neighborhood Projects Initiative - 716 Peralta Bike Racks (WO 2-37)	3,450.00	East Bay Community Recovery Project	1/20/2012
8	Neighborhood Projects Initiative - New Crucible Entry (WO 2-38)	57,700.00	The Crucible	1/17/2012
9	Neighborhood Projects Initiative - Peralta Lighting (WO 2-40)	2,638.00	East Bay Community Recovery Project	1/20/2012
10	Neighborhood Projects Initiative - Mural Project (WO 2-41)	75,000.00	Attitudinal Healing Connection, Inc	1/12/2012
11	Façade Improvement Grant Agreement (WO 2-13)	17,500.00	FuseBox, Ellen Sebastian-Chang	1/17/2012
12	Façade Improvement Grant Agreement (WO 2-15)	30,000.00	Mehmed Ahmetsphic	1/18/2012
13	Façade Improvement Grant Agreement (WO)	30,000.00	East Bay Asian Local Development Corp/CA Hotel Oakland, LLP	1/20/2012
14	Tenant Improvement Grant Agreement (WO 2-24)	45,000.00	Joe Bilman - Subterraneum	1/13/2012
15	Graffiti Abatement Program (WO 1-15)	50,000.00	Cypress Mandela Training Center	9/20/2011
	TOTAL	2,689,534.51		

OAKLAND OVERSIGHT BOARD

RESOLUTION No. 2013-_____

A RESOLUTION FINDING THAT THE LOAN INDEBTEDNESS OF THE FORMER REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND TO THE CITY OF OAKLAND FOR WEST OAKLAND REDEVELOPMENT PROJECTS FINANCED BY THE CITY IS AN ENFORCEABLE OBLIGATION OF THE OAKLAND REDEVELOPMENT SUCCESSOR AGENCY, FINDING THAT THE LOAN WAS FOR LEGITIMATE REDEVELOPMENT PURPOSES, AND APPROVING THE REPAYMENT SCHEDULE FOR THE LOAN

WHEREAS, the Oakland Redevelopment Successor Agency (“ORSA”) has succeeded to the authority, rights, powers, duties and obligations of the Redevelopment Agency of the City of Oakland under the Community Redevelopment Law; and

WHEREAS, ORSA received its Finding of Completion under Health and Safety Code Section 34179.7 from the California Department of Finance on May 29, 2013; and

WHEREAS, Health and Safety Code Section 34191.4(b) provides that, after a successor agency has received a finding of completion and upon application by the successor agency and approval by the oversight board, loans between the redevelopment agency and its sponsoring city shall be deemed enforceable obligations, and thus payable from Real Property Tax Trust Funds over time, subject to certain limitations; and

WHEREAS, Health and Safety Code Section 34191.4(b) requires that the oversight board make a finding that the loan was for legitimate redevelopment purposes; and

WHEREAS, redevelopment funds totaling \$2.69 million were committed by the former Redevelopment Agency, starting in 2008, to pay for certain public improvements and grants to private entities in the West Oakland Redevelopment Project Area, as more particularly set forth in the staff report accompanying this Resolution, via a Cooperation Agreement entered into between the City of Oakland and the Redevelopment Agency in 2004 and a Funding Agreement between the City and the Redevelopment Agency entered into in 2011; and

WHEREAS, these funding commitments were for projects and programs to alleviate physical and economic blight conditions in the West Oakland Redevelopment Project Area; and

WHEREAS, the City self-financed the cost of this work from its General Purpose funds with the understanding that the Redevelopment Agency would use redevelopment funds to reimburse the City for its costs under the terms of the Cooperation Agreement and the Funding Agreement; and

WHEREAS, these redevelopment funds have since been swept to the taxing entities following the completion of the “Due Diligence Review” of available nonhousing assets by the California Department of Finance pursuant to Health and Safety Code Section 34179.6, and this has resulted in an outstanding unpaid loan debt to the City of \$2.69 million plus interest; and

WHEREAS, no excess bond proceeds are available from West Oakland to satisfy this debt; and

WHEREAS, the ORSA Board and the City Council have established a loan repayment schedule for amortizing this debt consistent with the requirements set forth in Health and Safety Code Section 34191.4(b); and

WHEREAS, the funds advanced by the City to pay for the public improvements and the Redevelopment Agency’s commitment to reimburse the City were for legitimate redevelopment purposes, in that the funds were used to pay for the cost of installing and constructing buildings, facilities, structures and other improvements owned by the City within the West Oakland Redevelopment Project Area, such as the West Oakland Teen Center and various streetscapes, as provided for under Health and Safety Code Section 33445, which activities benefited the West Oakland Redevelopment Project Area and improved or eliminated conditions of physical blight in the Project Area; and

WHEREAS, the funds advanced by the City to pay for grants to private entities and the Redevelopment Agency’s commitment to reimburse the City were for legitimate redevelopment purposes, in that those funds were used either to pay for capital improvements under the Redevelopment Agency’s Neighborhood Projects Initiative program, Façade Improvement Grant program, or Tenant Improvement Grant program that improved or eliminated conditions of physical blight in the West Oakland Redevelopment Project Area, or to pay for graffiti abatement in the West Oakland Redevelopment Project Area as authorized under Health and Safety Code Section 33420.2; now, therefore:

Based on the foregoing recitals and the documentation presented to the Oakland Oversight Board at a public meeting, the Oakland Oversight Board does resolve as follows:

SECTION 1. The Oakland Oversight Board hereby finds (1) that the City advanced funds under the Cooperation Agreement and the Funding Agreement to pay for certain public improvements and grants to private entities in the West Oakland Redevelopment Project Area in reliance on the commitment by the former Redevelopment Agency to reimburse the City for those advances; (2) that the obligation

to repay those funds in the principal amount of \$2.69 million was a loan indebtedness of the former Redevelopment Agency to the City; (3) that the obligation to repay such indebtedness with interest is an enforceable obligation of ORSA to the City under Health and Safety Code Section 34191.4(b); (4) that these funds were used for legitimate redevelopment purposes for the reasons set forth above and in the staff report accompanying this Resolution; and (5) that the loan repayment schedule adopted by ORSA and the City conforms to the requirements set forth in Health and Safety Code Section 34191.4(b) as to the repayment of loan indebtedness principal and interest based on the reasons set forth in the staff report accompanying this Resolution.

SECTION 2. The Oakland Oversight Board hereby approves the request by ORSA to recognize such loan indebtedness as an enforceable obligation of ORSA under Health and Safety Code Section 34191.4(b), and approves the loan repayment schedule agreed to by ORSA and the City, attached to this Resolution as Exhibit A, based on the reasons and analysis set forth above and in the staff report accompanying this Resolution.

SECTION 3. The Oakland Oversight Board authorizes and directs ORSA to include the repayment of such funds to the City, along with interest accrued thereon in accordance with Health and Safety Code Section 34191.4(b), pursuant to the approved loan repayment schedule, on future ROPS.

ADOPTED, OAKLAND, CALIFORNIA, _____, 2013

PASSED BY THE FOLLOWING VOTE:

AYES- CARSON, GERHARD, LEVIN, ORTIZ, QUAN, YEE, TUCKER

NOES-

ABSENT-

ABSTENTION-

ATTEST: _____
SECRETARY, OAKLAND
OVERSIGHT BOARD

A RESOLUTION FINDING THAT THE LOAN INDEBTEDNESS OF THE FORMER REDEVELOPMENT AGENCY OF THE CITY OF OAKLAND TO THE CITY OF OAKLAND FOR WEST OAKLAND REDEVELOPMENT PROJECTS FINANCED BY THE CITY IS AN ENFORCEABLE OBLIGATION OF THE OAKLAND REDEVELOPMENT SUCCESSOR AGENCY, FINDING THAT THE LOAN WAS FOR LEGITIMATE REDEVELOPMENT PURPOSES, AND APPROVING THE REPAYMENT SCHEDULE FOR THE LOAN

EXHIBIT A

LOAN REPAYMENT SCHEDULE

(attached)

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LOAN TERMS:

This loan originated in 2008 and is payable over a three-year period commencing in 2014. To the extent that the amount of Real Property Tax Trust Funds available for repayment in any given year is insufficient to make the full payment, the above scheduled payment amount will be reduced accordingly, and the repayment schedule for subsequent years then will be adjusted accordingly to provide for repayment of the full loan amount within the three-year term. Also, to the extent the amount of Real Property Tax Trust Funds available for repayment in any given year exceeds the above scheduled payment amount, the above scheduled payment amount will be increased, up to a maximum payment of one-half of the Real Property Tax Trust Funds available for repayment that year, and the repayment schedule for subsequent years then will be adjusted accordingly. For purposes of this schedule, "Real Property Tax Trust Funds available for repayment" means the maximum annual repayment amount as calculated under Health and Safety Code Section 34191.4(b)(2)(A).