

COUNTY OF LOS ANGELES

CHIEF EXECUTIVE OFFICE

The seal of the County of Los Angeles, California, is a large, faint watermark in the background. It features a central figure of a woman holding a staff, surrounded by various symbols including a sun, a rainbow, a fish, and a bull. The text "COUNTY OF LOS ANGELES" is arched across the top, and "CALIFORNIA" is arched across the bottom.

Oversight Board Training Manual

FOR APPOINTEES OF THE COUNTY OF LOS ANGELES

updated September 7, 2012



COUNTY OF LOS ANGELES

CHIEF EXECUTIVE OFFICE

Document History

(updated September 7, 2012)

Version	Date	Section	Page	Revisions
1.00	3/30/12	All	All	Initial document.
1.01	4/11/12	Key Decisions	35	Clarify language on establishing Oversight Board rules & procedures.
1.01	4/11/12	Reviewing the ROPS	43	Clarify language regarding the validity of cooperation & financial agreements.
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2.01	9/7/12	Due Diligence Review; Disposition of Real Property; Housing; Bonds	57-86	Added new sections to the manual to reflect changes in AB 1484.

This manual created by:

Estolano LeSar Perez Advisors

315 West Ninth Street
Suite 1010
Los Angeles, CA 90015
213-612-4545
www.elpadvisors.com



ABBREVIATIONS

AUP

Agreed Upon Audit Procedures

DOF

Department of Finance

EOPS

Enforceable Obligation Payment Schedule

LMIHF

Low and Moderate Income Housing Fund

LRPMP

Long-Range Property Management Plan

RDA

Redevelopment Agency

ROPS

Recognized Obligations Payment Schedule

RPTTF

Redevelopment Property Tax Trust Fund

SCO

State Controller's Office

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INTRODUCTION

INTRODUCTION

Thank you for agreeing to serve on the Oversight Board for a Successor Agency of a redevelopment agency in the County of Los Angeles.

Oversight Boards play an integral role in the implementation of ABx1 26, the bill that dissolved redevelopment agencies (RDAs) and provides for the wind down of redevelopment activities.

This manual provides you with an overview of the legislation. It will explain how the state's redevelopment agencies have transferred their functions to other agencies and how those Successor Agencies will wind-down the former RDA's operations. It will also detail the role that Oversight Boards play in the process. The manual outlines what you should expect as an Oversight Board member and contains reference materials and links to information that will assist you moving forward.

OVERVIEW OF ABx1 26 + AB 1484

OVERVIEW OF ABx1 26 + AB 1484

Background

In his 2011-12 budget, Governor Jerry Brown proposed eliminating the state's RDAs to help address the state's ongoing budget deficit. In June 2011, the Legislature passed, and the Governor signed, two bills in response to his proposal:

1. **ABx1 26 prevented RDAs from engaging in new activities and dissolved the agencies** effective October 1, 2011. This legislation also outlined a process for winding down the RDAs' financial affairs, and set forth a mechanism to distribute any net funds from the RDAs to other local taxing agencies.
2. **ABx1 27 would have allowed RDAs to opt-in to an alternative redevelopment program to avoid dissolution.** The agencies would have had to agree to transfer annual payments to school and community college districts to continue their functions.

The California Redevelopment Association, the League of California Cities and other parties filed petitions with the California Supreme Court challenging both ABx1 26 and ABx1 27 on constitutional grounds. The Supreme Court imposed a partial stay on the implementation of the two pieces of legislation and reviewed the issues on an expedited basis.

On December 29, 2011, the California Supreme Court upheld the constitutionality of ABx1 26 and struck down ABx1 27 as unconstitutional. It also extended some of the deadlines and dates stipulated in ABx1 26 by four months because of the delay caused by the litigation. As a result of the Supreme Court's decision in *California Redevelopment Association v. Matosantos*, (an excerpt of which is attached as Appendix 6), California's approximately 400 RDAs were dissolved on February 1, 2012. The assets and liabilities (excluding housing assets¹) of RDAs have now been transferred to Successor Agencies pursuant to ABx1 26. A separate Successor Housing Agency manages the RDA's housing assets.

AB 1484

On June 27, 2012 the Governor signed Assembly Bill 1484 (AB 1484), a budget trailer bill that took effect immediately. The bill made significant technical and substantive amendments to the original Redevelopment Dissolution Act (ABx1 26). The bill establishes new authority, procedures, and timelines for Successor Agencies, Oversight Boards, county auditor-controllers, the Department of Finance and the State Controller's Office.

OVERVIEW OF ABx1 26 + AB 1484

Redevelopment & Tax Increment Financing

This overview of redevelopment and tax increment financing provides context for understanding the implications of the Redevelopment Dissolution Act.

The state Legislature authorized the formation of redevelopment agencies through approval of the Community Redevelopment Law (CRL). The CRL allowed local governments to form redevelopment agencies to “prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas.”² After designating an area as “blighted,” RDAs could acquire real property, dispose of the property by lease or sale, clear land, construct infrastructure necessary for building on project sites, and undertake improvements to public facilities in designated project areas.³

In 1952, California voters approved a constitutional amendment that allowed RDAs to use tax increment financing to fund their redevelopment plans. Tax increment financing allowed redevelopment agencies to capture increased property tax revenue in their project areas to fund their activities.⁴

Once a project area was designated and a redevelopment plan was adopted, a base year was set for property tax revenues. All of the other taxing entities in the project area (e.g., school districts, county governments, flood control districts, library districts, etc.) had their property tax revenue frozen at this base year level. Any increased tax revenue above the base year level went to the redevelopment agency until the redevelopment project ended.

OVERVIEW OF ABx1 26 + AB 1484

Redevelopment & Tax Increment Financing (cont.)

To illustrate this point, let's say the total property tax revenue in a project area was \$100,000 during the base year. If that revenue grows to \$110,000 in the next year, then the redevelopment agency would be entitled to \$10,000, or the tax increment. The other taxing agencies in the project area would receive the same proportion of the initial \$100,000 that they received in the previous year.

Over time, this meant that property tax revenue going to many local jurisdictions stayed frozen while the amount of tax increment collected by RDAs grew. The redevelopment agencies were entitled to receive the additional revenue for the life of the redevelopment project – which typically lasted for decades.

The RDAs used tax increment revenue to issue bonds that financed their redevelopment activities. The tax increment and bond proceeds generally could only be spent within the boundaries of the project area (with very limited exceptions for affordable housing and public works). Neither the establishment of a redevelopment project area, nor the issuance of bonds required approval of the other taxing entities.

Over the years, RDAs issued billions of dollars in debt and entered into numerous agreements and contracts to carry out redevelopment activities. The Redevelopment Dissolution Act attempts to honor those debt obligations and other legally enforceable contracts.⁵ But the bill stopped RDAs from pursuing any new activities that might continue to divert tax increment dollars away from other local taxing entities.

OVERVIEW OF ABx1 26 + AB 1484

Bonds

Former redevelopment agencies could not receive or spend tax increment funds until the agency adopted a redevelopment plan and established debt. Entering into debt allowed the agency to finance its activities. In many cases, agencies established debt through bonds.

A bond is a formal contract to repay borrowed money with interest at fixed intervals. To repay bonds, agencies typically pledged future tax increment revenue. Agencies may have also pledged other project-specific revenues, including rent proceeds and revenue generated from parking fees.

Many bonds issued by former RDAs are structured with two payments during each calendar year. One semi-annual payment is usually much larger than the other because only one payment contains the full amount of the principal due each year. Typically, this larger payment comes due in the summer or fall to allow the agency to collect the entire amount of tax increment revenues from the prior fiscal year. This ensures that sufficient funds are available to pay both the principal and interest owed on the bond during the calendar year.

In addition, many bond documents require that the annual amounts owed on the bond debt be held before any “excess” tax increment revenue could be released for other purposes, such as making pass-through payments. This meant that, traditionally, RDAs would need to dedicate funds to pay bond debt before they could spend tax increment revenue for other purposes.

The ROPS process outlined in the Redevelopment Dissolution Act significantly modifies the way that bond obligations are handled. Since bond payments are not equally distributed throughout the year, it may be necessary for the Successor Agency to request that additional RPTTF funds be held in reserves during the ROPS period when the smaller semi-annual payment is due. This will allow the Successor Agency to pay the full amount owed on bonds when the larger bond payment comes due during the next ROPS period. The creation of reserves to make required bond payments is permissible under AB 1484, but these actions are subject to Oversight Board and DOF approval.

OVERVIEW OF ABx1 26 + AB 1484

Housing

In 1976, the Legislature directed redevelopment agencies to set aside 20% of the tax increment collected in a project area to be used by the agency to increase, improve, and preserve the community's supply of affordable housing. It required that funding be used predominantly within the project area. This 20% set-aside was held in a Low and Moderate Income Housing Fund.

Under the Redevelopment Dissolution Act, the former RDA's housing functions and most of its housing assets were transferred to a "successor housing agency," separate from the RDA successor agencies. Housing assets that transfer to the successor housing agency include property, rental payments, bond proceeds, lines of credit, certain loan repayments, and other housing-related revenue sources. Under AB 1484, amounts owed to the Low and Moderate Income Housing Fund are considered housing assets and are to be transferred to the housing successor agency.⁶

The Oversight Board does not have oversight over a city or successor housing agency that takes on a former RDA's housing assets. However, the Oversight Board must approve the transfer of housing assets. Oversight Boards also have the authority to review and approve commitments of excess housing funds listed on the Recognized Obligation Payment Schedule (ROPS) prepared by the RDA successor agency. (See pg. 10 for an explanation of the ROPS.) In addition, the oversight board is obligated to review mixed-use projects that have an affordable housing component. They are required to review and approve the disposition of those assets, with special consideration for "the overall value to the community as well as the benefit to taxing entities."⁷

OVERVIEW OF ABx1 26 + AB 1484

Pass-Throughs

While tax increment finance was a boon to redevelopment agencies, it had the potential to limit the amount of property tax revenues distributed to other taxing agencies in RDA project areas. Because of this, the Legislature allowed local taxing entities to receive a share of the tax increment. Many RDAs made payments "to local agencies to partly offset these agencies' property tax losses associated with redevelopment."⁸ The transfer of funds was called a "pass-through payment" because they "passed-through" the RDA before going to the taxing entity.

Before 1994, RDAs were allowed to negotiate with local jurisdictions to determine the amount of tax increment that local taxing agencies would receive. These agreements "sometimes were negotiated as part of a settlement of a dispute over the legality of a proposed project area."⁹ In some cases, RDAs agreed to negotiate up to "100 percent pass-through payments to the county and special districts, meaning that these agencies received their entire share of the property tax in pass-through payments."¹⁰ Most school districts had less incentive to negotiate pass-through agreements since, under state law, "the state reimbursed them for any lost property tax revenue."¹¹ However, the reimbursement costs paid by the state "grew rapidly to hundreds of millions of dollars per year."¹²

Assembly Bill 1290 "replaced negotiated agreements with a schedule of payments,"¹³ meaning that RDAs could no longer craft special pass-through agreements with local agencies. Previously negotiated pass-through agreements were still enforced¹⁴, but AB 1290 prohibited the creation of new agreements. Instead, they had to follow an established formula that delineated pass-through payment amounts for each local taxing jurisdiction. These payments were distributed to all local agencies based on each jurisdiction's pre-determined proportionate share.¹⁵

The pass-through payments are relevant to the RDA dissolution process because different interpretations of ABx1 26 can affect whether a taxing entity will continue to receive the same amount of pass-through payments as it did prior to ABx1 26's enactment.

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THE DISSOLUTION PROCESS

THE DISSOLUTION PROCESS

This section provides an overview of the RDA dissolution process set forth in ABx1 26.

Four Key Elements

The dissolution process contains four key elements that provide a framework for winding-down the redevelopment agencies:

1. Local Management and Oversight¹⁶

In most cases, the county or city that created the redevelopment agency is managing its dissolution as its Successor Agency. An Oversight Board, of which you are a member, is comprised of representatives from the affected local taxing agencies. The Oversight Board's role is to supervise the Successor Agency's work and direct the Successor Agency to take actions necessary to wind down the former RDA.

2. List of Future Redevelopment Expenditures¹⁷

Local oversight boards and government entities are tasked with developing and reviewing lists of future redevelopment expenditures, or "enforceable obligations." These obligations include payments for redevelopment bonds and loans, but typically exclude payments for projects not currently under contract. A Successor Agency to a former RDA may pay only those financial obligations included on these lists.

3. Local Distribution of Funds¹⁸

Funds that formerly would have been distributed to the RDA as tax increment are deposited into a redevelopment trust fund, known as the Redevelopment Property Tax Trust Fund (RPTTF). This fund is used to pay obligations listed on the Enforceable Obligation Payment Schedule (EOPS) and the Recognized Obligation Payment Schedule (ROPS). The EOPS is the initial list of obligations developed prior to the dissolution of the RDAs. The ROPS is a semi-annual list of obligations that determines how a Successor Agency can spend its revenues. You will be reviewing the ROPS as an Oversight Board member. After the enforceable obligations have been paid, any remaining monies in the RPTTF are distributed to the local taxing entities in the project area.

4. State Review¹⁹

The Department of Finance (DOF) has broad oversight and decision-making authority under AB 1484. Actions of local Oversight Boards are subject to review by the Department of Finance (DOF). Actions by the county auditor-controller are subject to review by the State Controller's Office (SCO). The SCO also reviews redevelopment asset transfers to determine whether any of them were improper and should be reversed. If an improper transfer occurred, the Controller is required to order the recipient of transferred assets to return the assets to the Successor Agency.

THE DISSOLUTION PROCESS

What is an Enforceable Obligation?

"Enforceable obligation" means any of the following:

1. **Bonds, including the required debt service, reserve set-asides and any other payments required under the indenture** or similar documents governing the issuance of the outstanding bonds of the redevelopment agency.²⁰ Bond reserves are permitted in certain circumstances.
2. **Loans of moneys borrowed by the redevelopment agency for a lawful purpose**, including moneys borrowed from the Low and Moderate Income Housing Fund.²¹
3. **Payments required by the federal government, preexisting obligations to the state or obligations imposed by state law**, other than pass-through payments that are made by the county auditor-controller, or legally enforceable payments required in connection with the agencies' employees, including, but not limited to, pension payments, pension obligation debt service, and unemployment payments.²²
4. **Judgments or settlements entered by a competent court of law or binding arbitration decisions against the former redevelopment agency**. Along with the successor agency, the oversight board shall have the authority and standing to appeal any judgment or to set aside any settlement or arbitration decision.²³
5. **Any legally binding and enforceable agreement or contract that is not otherwise void** as violating the debt limit or public policy.²⁴
6. **Contracts or agreements necessary for the continued administration or operation of the redevelopment agency**, including, but not limited to, agreements to purchase or rent office space, equipment and supplies, and pay-related expenses and for carrying insurance.²⁵ In addition, agreements concerning litigation expenses related to assets or obligations, settlements and judgments, and the costs of maintaining assets prior to disposition are also considered enforceable obligations.²⁶
7. **Amounts borrowed from or payments owing to the Low and Moderate Income Housing Fund of a redevelopment agency, which had been deferred**. Provided, however, that the repayment schedule is approved by the Oversight Board.²⁷

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KEY PLAYERS

KEY PLAYERS

Successor Agencies

Successor Agencies came into effect on February 1, 2012, the day that all redevelopment agencies in the State of California were dissolved.

Generally – unless it voted not to – each city or county that created an RDA became its Successor Agency on February 1, 2012. In Los Angeles County, only the City of Los Angeles decided not to become a successor agency. When the local agency, in this case, the City of Los Angeles, declined that role, and no other local agency in the county agreed to serve as their successor agency, the Governor then appointed county residents to serve on a three-member governing board as the "designated local authority." The authority will serve as the Successor Agency until a local agency elects to serve in this capacity.²⁸

The Successor Agency is overseen by an Oversight Board that reviews and approves the ROPS and other actions of the Successor Agency.

There are 71 Successor Agencies in the County of Los Angeles, all of which must have an Oversight Board.

Successor Agencies (cont.)

Subject to the approval of the Oversight Board, the Redevelopment Dissolution Act specifies that Successor Agencies may spend \$250,000, or up to 5 percent of the amounts allocated to the Successor Agency for administrative expenses in fiscal year 2011–12. In future years, they may spend \$250,000, or up to 3 percent of former tax increment revenues. The County Auditor–Controller may reduce these amounts, however, if there are insufficient funds to pay enforceable obligations and the administrative costs of the County Auditor–Controller and State Controller. In addition, AB 1484 allows the Oversight Board to reduce the \$250,000 amount.²⁹

In some cases, Successor Agencies can charge specific project administration costs to unencumbered bond proceeds instead of drawing from the general administrative budget.³⁰ Administrative expenses (i.e., the “administrative cost allowance”) do not include litigation expenses related to assets or obligations, settlements and judgments, or the cost of maintaining assets prior to disposition. These expenses can be listed on the ROPS as enforceable obligations, and are not included in the administrative cost allowance.³¹

KEY PLAYERS

Successor Agencies (cont.)

The Successor Agency manages redevelopment projects currently underway, makes payments identified on the EOPS (and later, the ROPS), and disposes of redevelopment assets and properties as directed by the Oversight Board.³² A separate agency manages the former RDA's housing assets.³³ The Successor Agency's liability for any legal claims is limited to the funds and assets it receives to perform its functions.

The Successor Agency is responsible for drafting a ROPS by March 1, 2012, and again by September 1, 2012.³⁴ Thereafter, the ROPS will be due 90 days before each property tax distribution. They must transmit approved ROPS to the County Auditor-Controller's Office and the California Department of Finance (see RDA dissolution timeline on page 22).³⁵ The ROPS will delineate the enforceable obligations payable through June 30, 2012 and their source of payment, and then will be updated and submitted for approval every six months thereafter.

Chapter 3 "Successor Agencies" of ABx1 26 contains sections 34177 through 34178.8, which provide details about the duties and deadlines of successor agencies. The chapter provides clarifications on the validity and invalidity of certain types of agreements, contracts and arrangements between the former RDA and the city or county that created it.

Oversight Boards

The actions of the Oversight Board are overseen by the Department of Finance (DOF). After the Oversight Board has provided notice to the DOF, it must wait five business days for any actions to go into effect. During the five-day waiting period, the DOF may request a review of any of the Oversight Board's actions. The DOF, in turn, has 40 calendar days to approve the Oversight Board's action(s) or return it to the Oversight Board for reconsideration.³⁶ For the ROPS, the DOF review period is 45 days.³⁷

Department of Finance

The Department of Finance (DOF) plays a decisive role in the implementation of the Redevelopment Dissolution Act. Under AB 1484, the DOF has broad oversight and decision-making powers. The DOF has the authority to review EOPS and ROPS. It makes final determinations about what amounts are included on each ROPS and which costs count as enforceable obligations. The Department plays an oversight role regarding the actions of the Oversight Board. The DOF may request a review of the Oversight Board's action within five business days. It then has 40 calendar days to approve the action or return it for reconsideration.³⁸ The DOF has 45 calendar days to review the ROPS.³⁹

County Auditor-Controller

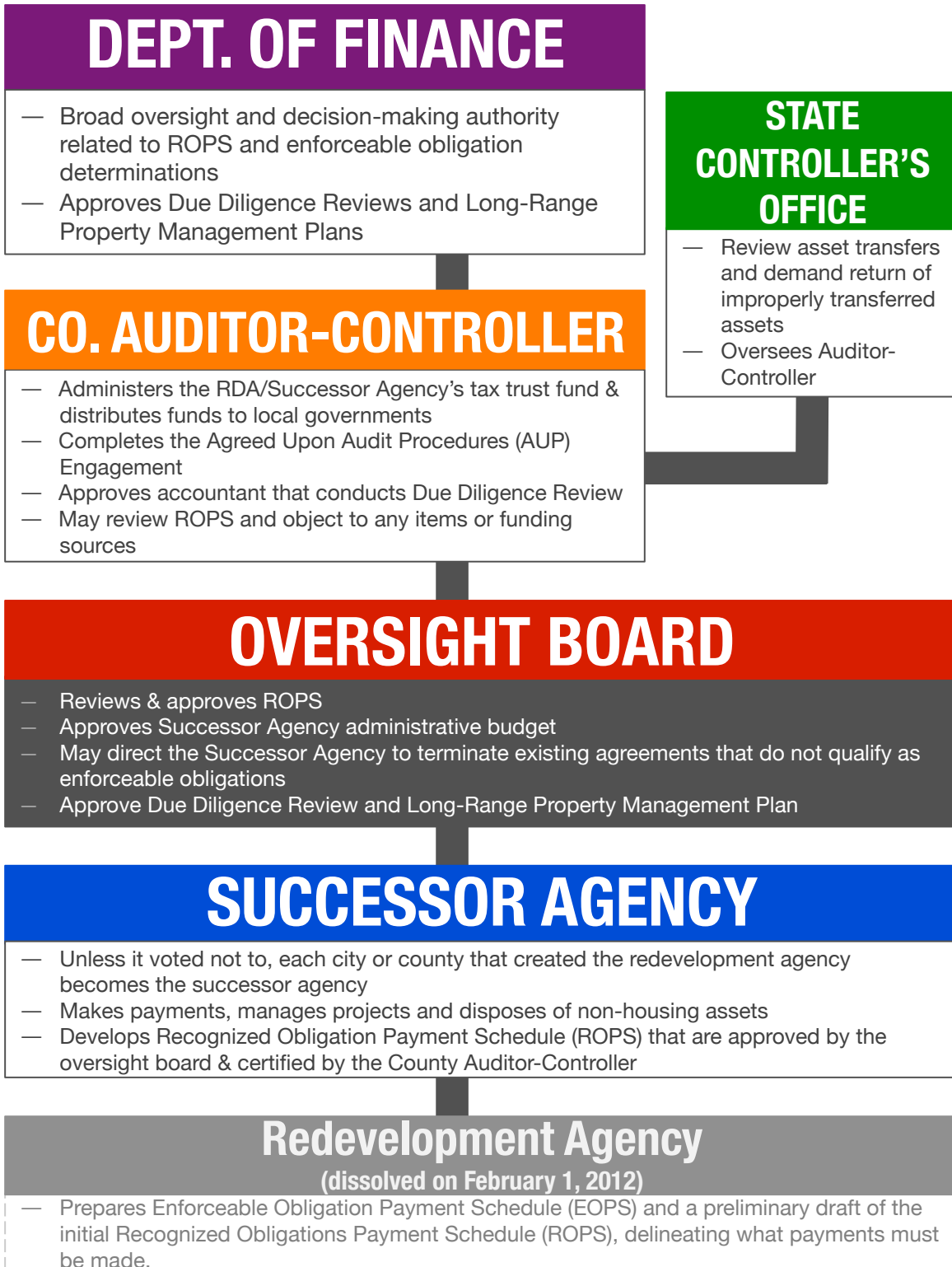
The Auditor-Controller administers the RDA's tax trust fund and distributes funds to local governments. This office also certifies draft ROPS and establishes Agreed Upon Audit Procedures (AUP) for the former RDA.⁴⁰ The Auditor-Controller also has the ability to review ROPS and contest any amounts included on the ROPS. This review can take place before or after the Oversight Board takes action.⁴¹

State Controller's Office

The State Controller's Office (SCO) is responsible for recouping redevelopment assets that were improperly transferred from Successor Agencies to any public or private entities. For example, the State Controller is required to order the return of "available assets" to the Successor Agency if an improper transfer occurred after January 31, 2012, per Health & Safety Code Section 34178.8. The SCO also plays an oversight role regarding the activities of the County Auditor-Controller. The SCO may request a review of the Auditor-Controller's action within three days. It then has ten days to approve the action or return it for reconsideration.⁴²

KEY PLAYERS

RDA Dissolution Organizational Structure



MAIN STEPS & TIMELINE

MAIN STEPS & TIMELINE

To prepare for your role as an Oversight Board member it is important to understand where you fit in the overall dissolution process. The main steps in the RDA dissolution process are:

1. RDAs prepare to be dissolved.

The dissolution process began the moment that ABx1 26 was signed into law in June 2011. It imposed an immediate freeze on RDAs' authority to incur new debt, make new loans or grants, enter into new or amend existing contracts, acquire or dispose of assets, and alter redevelopment plans.⁴³ The goal was to prevent RDAs from entering into any new obligations that might further divert property tax revenue from the taxing entities.

In addition, RDAs were directed to prepare an EOPS delineating the payments they were obligated to make through December 31, 2011. The RDAs were permitted to pay only the financial obligations listed on the EOPS during the period between the enactment of ABx1 26 and the date the RDAs were dissolved. The RDAs were required to post these EOPS on their website and send copies to the state Department of Finance, the State Controller's Office and the Auditor-Controller of its county. This was the first step in attempting to gain an understanding of the amount of outstanding obligations that would need to be paid before funds could be transferred to the taxing entities.

MAIN STEPS & TIMELINE

2. RDAs dissolve and their assets and liabilities are transferred to Successor Agencies.

As a result of the California Supreme Court's *Matosantos* decision, all RDAs were dissolved on February 1, 2012. Upon dissolution of the RDAs, Successor Agencies were created to receive the assets and liabilities of the former RDAs. The Successor Agency manages redevelopment projects that are currently underway, makes payments listed on the EOPS (and later, only those listed on the ROPS), and disposes of redevelopment assets and properties as directed by the Oversight Boards. Only obligations listed on the EOPS can be paid until the ROPS is approved. Once a ROPS is approved by the DOF, only those obligations can be paid.

3. Successor Agencies prepare the first Recognized Obligations Payment Schedule (ROPS).

The Successor Agency is responsible for drafting an initial ROPS that lists the enforceable obligations that must be paid through June 30, 2012, and the source of funds for the payment. The draft ROPS was to be completed by March 1, 2012 and a final ROPS should be submitted to the State Controller's Office and the Department of Finance on April 15, 2012. The ROPS is not deemed valid until it has been approved by the Oversight Board, provided to the County Auditor-Controller, the state Department of Finance, the State Controller's Office and posted on the Successor Agency's website. The Department of Finance will make final determinations about what amounts listed on the ROPS will be paid and what payments qualify as enforceable obligations.

MAIN STEPS & TIMELINE

4. Oversight Boards are formed and review the ROPS.

The various appointing authorities must submit the names of their appointments to the Oversight Boards for each Successor Agency to the Department of Finance by May 1, 2012. Certain actions of the Successor Agency require Oversight Board approval. The Oversight Board is required to direct the Successor Agency to take certain actions to wind down the affairs of the former RDA. In turn, the state Department of Finance reviews the actions of the Oversight Board.

The Oversight Board is also responsible for approving the ROPS. Under the implementation schedule ordered by the California Supreme Court, the deadline for submitting the first approved ROPS to the Department of Finance is April 15, 2012. Therefore, the Oversight Board should consider the first ROPS as soon as possible after a quorum of members has been appointed. This first ROPS lists the enforceable obligations spanning February 1, 2012 to June 30, 2012. The ROPS supersedes the EOPS upon approval. Starting on May 1, 2012, a Successor Agency may only pay obligations listed on the DOF-approved ROPS.

Because of the implementation delays caused by the litigation over the RDA dissolution legislation, shortly after approving the first ROPS, the Oversight Board will be asked to consider a second ROPS. This ROPS will cover enforceable obligations coming due during the period spanning July 1, 2012 to December 31, 2012. The County Auditor-Controller has requested that Successor Agencies submit this second ROPS to the Auditor-Controller and Oversight Boards by April 15, 2012. The Auditor-Controller has also requested that Oversight Boards complete their review and submit the second ROPS to their office and the Department of Finance by April 27, 2012. Adhering to this timeline is critical in order for the Auditor-Controller to distribute property tax funds to the Successor Agencies by June 1, 2012, as mandated by the legislation.

5. The County Auditor-Controller administers the Redevelopment Property Tax Trust Fund and audits the former RDA.

A Redevelopment Property Tax Trust Fund (RPTTF) was created upon dissolution of each RDA. Money that the former RDA would have received as tax increment is deposited into the RPTTF. The Fund is used to service the former RDA's debt obligations, make payments to taxing entities under existing "pass-through agreements", pay enforceable obligations, and pay administrative costs. The County Auditor-Controller administers the RPTTF and distributes any remaining monies to local taxing entities.

The Auditor-Controller is also responsible for completing an Agreed Upon Audit Procedures (AUP) Engagement of the former RDA. The engagement will require the Auditor-Controller to compile a list of the RDA's assets and liabilities and certify the ROPS. The AUP report must be completed by October 1, 2012, with a report submitted to the State Controller's Office and the Department of Finance by October 5, 2012.⁴⁴

Note that the sequencing of the Auditor-Controller's AUP report of the former RDA and certification of the ROPS is out of step with the timing for Oversight Board approval of the ROPS. The AUP report is not likely to be completed before the Oversight Board begins to review the first or second ROPS. Therefore, the Oversight Board may be reviewing the ROPS without the benefit of the Auditor-Controller's report.

MAIN STEPS & TIMELINE

6. Ongoing wind-down of RDA activities, including Due Diligence Review and “Finding of Completion.”

After the initial ROPS is approved, the Successor Agencies will prepare and the Oversight Boards will review subsequent forward-looking ROPS that will list the obligations for the next six month period.

The Auditor-Controller will make semi-annual distributions to the Successor Agencies based on the ROPS approved by the Oversight Boards and the Department of Finance. On June 1st of every year, the Auditor-Controller will distribute funds to Successor Agencies to cover the ROPS from July 1 to December 31 of that year. Every January 2nd, the Auditor-Controller will distribute funds to Successor Agencies to cover the ROPS from January 1 to June 30 of that year.

After approving the second ROPS, the Oversight Board will be tasked with reviewing and approving a new audit called the Due Diligence Review. These documents will be used “to determine the unobligated balances available to transfer to taxing entities.”⁴⁵ The review will be undertaken by the Successor Agency, but the Oversight Board will facilitate a public review process and will approve the document before sending it to the DOF for final approval.

After the DOF approves each Due Diligence Review and all unobligated balances are paid to the affected taxing entities, the DOF is required to issue a “Finding of Completion” within five business days.⁴⁶ This Finding allows the successor agency to retain dissolved RDA assets, present loan agreements between the former RDA and the city or county that created it to the Oversight Board and DOF for approval, and spend unencumbered bond proceeds issued prior to January 1, 2011.

MAIN STEPS & TIMELINE

7. Post-“Finding of Completion” Activities and ongoing review by Oversight Board and the Department of Finance.

Once the Department of Finance has issued a “Finding of Completion,” the Successor Agency will begin the process of planning for the disposition of assets and settling any remaining enforceable obligations.

As part of this process, the Successor Agency must submit a Long-Range Property Management Plan that outlines a strategy for the disposition of all properties, with the exception of housing assets and properties used for a governmental purpose. The Oversight Board must consider and approve the Plan before the Successor Agency transmits it to the DOF for a final determination. After the Plan is approved by the DOF, property disposition can occur.⁴⁷

A “Finding of Completion” also allows Successor Agencies to present loan agreements entered into between the former RDA and the city or county that created the Agency to the Oversight Board and DOF. The reinstatement of these agreements requires Oversight Board and DOF approval.⁴⁸

Successor Agencies are also authorized to use unencumbered proceeds derived from bonds issued prior to January 1, 2011 at this time. The monies must be spent in a manner consistent with the original bond covenants and must be approved by the Oversight Board and the DOF.⁴⁹

The Oversight Boards will continue to review certain actions of the Successor Agencies and approve semi-annual ROPS. The Oversight Board’s actions will continue to be subject to review by the Department of Finance. After all the debts of the former RDA are retired or paid off, the Successor Agency “shall dispose of all remaining assets and terminate its existence within one year of the final debt payment.”⁵⁰

On July 1, 2016, all the Oversight Boards in a given county are to be consolidated into one county-wide Oversight Board.⁵¹ In the case of Los Angeles County, 71 separate Oversight Boards will be consolidated into one.

MAIN STEPS & TIMELINE

RDA Dissolution Timeline

AB 1484 has introduced a series of new requirements and deadlines that has shifted the timeline for the dissolution process. Please see the dates below for a list of the key dates in the dissolution timeline.

JUN 28 2011	Governor Brown signed ABx1 26 (i.e., the Redevelopment Agency Dissolution Act) and ABx1 27, which creates an alternative voluntary redevelopment program.
JUL 18 2011	The California Redevelopment Association filed a suit against the California Department of Finance challenging ABx1 26 & ABx1 27, suspending the dissolution of RDAs until a Supreme Court decision is made.
AUG 11 2011	The courts grant a partial stay of ABx1 26 and ABx1 27.
DEC 29 2011	The California Supreme Court upheld the constitutionality of ABx1 26 and struck down ABx1 27 as unconstitutional. The Court pushed back the deadlines in ABx1 26 that occurred before May 1, 2012 by four months.
FEB 1 2012	RDAs were dissolved, transferring their assets to a Successor Agency. Successor Agencies began operations and started to review Enforceable Obligation Payment Schedules (EOPS).
MAR 1 2012	Successor Agencies prepared a draft of the initial Recognized Obligation Payment Schedule (ROPS) for the enforceable obligations of the former redevelopment agency.
APR 15 2012	The Oversight Board transmits the approved initial ROPS to the Department of Finance and State Controller's Office. The Oversight Board should immediately consider the second ROPS that details payments from July to December of 2012.
APR 27 2012	Deadline for Oversight Board to review and transmit second ROPS (covering July 1, 2012 to December 31, 2012) to the County Auditor-Controller and the Department of Finance.
MAY 1 2012	Successor Agency pays only those obligations listed in the ROPS. Selection of Oversight Board members is completed. The names of Oversight Board members must be submitted to the Department of Finance.
MAY 15 2012	Governor Brown appoints Oversight Board members if the position has not been filled by this date or if a position has been vacant for more than 60 days.

MAIN STEPS & TIMELINE

RDA Dissolution Timeline

JUN 1 2012	County Auditor-Controller distributes funds to Successor Agencies to pay for approved obligations from July 1, 2012 through December 31, 2012.
JUN 27 2012	Governor signed AB 1484. The trailer bill made significant technical and substantive amendments to the original Redevelopment Dissolution Act.
JUL 9 2012	County Auditor-Controller notifies Successor Agencies of amounts owed, if any, to taxing entities from the first ROPS period.
JUL 12 2012	Successor Agency must remit payment to the Auditor-Controller.
AUG 1 2012	Housing Successor Agency submits list of housing assets to the DOF. The Department may object to items within 30 days.
SEP 1 2012	Successor Agency submits an Oversight Board-approved ROPS covering January through June 2013 to the DOF. The DOF has 45 days to make its determinations.
OCT 1 2012	County Auditor-Controller completes Agreed Upon Audit Procedures for each redevelopment agency.
OCT 1 2012	Successor Agency submits results of Due Diligence Review (DDR) for housing funds.
OCT 15 2012	Oversight Board to review, approve, and transmit results of the DDR for the housing funds. The Oversight Board must hold a public session at least five business days in advance of meeting to consider approval.
NOV 9 2012	The DOF completes its review of the DDR for housing funds and reports its findings.
NOV 16 2012	Successor Agency may request a “meet and confer.” The DOF must confirm or modify its determination within 30 days. The Successor Agency must transfer unobligated housing funds within 5 business days of the final DOF determination.
DEC 15 2012	Successor Agency submits results for DDR for non-housing funds.

MAIN STEPS & TIMELINE

RDA Dissolution Timeline

JAN 2 2013	Auditor-Controller makes distributions from the RPTTF for the next ROPS period (January through June 2013).
JAN 15 2013	Oversight Board to review, approve, and transmit results of DDR for the non-housing funds. The Oversight Board must hold a public session at least five business days in advance of the meeting to consider approval.
MAR 3 2013	Successor Agency submits an Oversight Board-approved ROPS for the July to December 2013 period to DOF. The Department has 45 days to make determinations.
APR 1 2013	The DOF completes review of the DDR for non-housing funds and reports its findings.
APR 8 2013	Successor Agency may request a “meet and confer.” The DOF must confirm or modify its determination within 30 days. The Successor Agency must transfer unobligated funds within 5 business days of the final DOF determination.
OCT 1 2013	Approved ROPS must be submitted to the Department of Finance and the State Controller’s Office so that County Auditor-Controller can distribute funds no later than January 2, 2014.
MAR 1 2014	Approved ROPS must be submitted to the Department of Finance and the State Controller’s Office so that County Auditor-Controller can distribute funds no later than June 1, 2014.
OCT 1 2014	Approved ROPS must be submitted to the Department of Finance and the State Controller’s Office so that County Auditor-Controller can distribute funds no later than January 2, 2015.
MAR 1 2015	Approved ROPS must be submitted to the Department of Finance and the State Controller’s Office so that County Auditor-Controller can distribute funds no later than June 1, 2015.
OCT 1 2015	Approved ROPS must be submitted to the Department of Finance and the State Controller’s Office so that County Auditor-Controller can distribute funds no later than January 2, 2015.
MAR 1 2016	Approved ROPS must be submitted to the Department of Finance and the State Controller’s Office so that County Auditor-Controller can distribute funds no later than June 1, 2016.
JUL 1 2016	All Oversight Boards are consolidated into one county-wide Oversight Board.

OVERSIGHT BOARD

OVERSIGHT BOARD

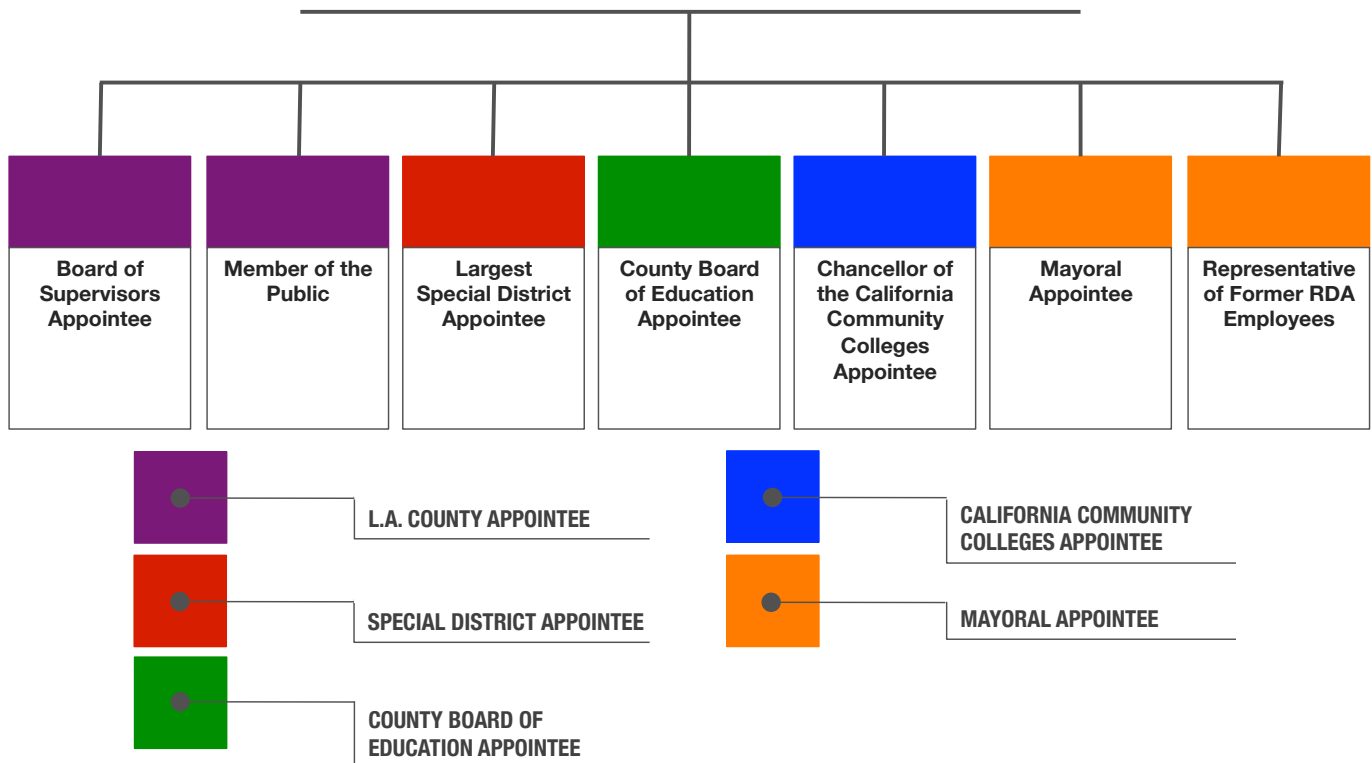
Composition, Quorum, Personal Immunity and Governance

The Redevelopment Dissolution Act requires each Successor Agency to have an Oversight Board that consists of seven members. The Board must elect one of its members as the chairperson.

The board members are appointed by and represent the following entities⁵²:

1. One member appointed by the Los Angeles County Board of Supervisors
2. One member of the public appointed by the Los Angeles County Board of Supervisors
3. One member appointed by the Mayor for the city that had sponsored the dissolved RDA
4. One member appointed by the Mayor representing the employees of the former RDA
5. One member appointed by the largest special district, by property tax share, with territory in the territorial jurisdiction of the former RDA
6. One member appointed by the Los Angeles County Board of Education
7. One member appointed by the Chancellor of the California Community Colleges

OVERSIGHT BOARD MEMBERS



OVERSIGHT BOARD

A majority of the total membership of the Oversight Board constitutes a quorum; a quorum is required for the Oversight Board to take action.⁵³

Oversight Board members cannot be compensated or reimbursed for their expenses. However, Oversight Board members “are protected by the immunities applicable to public entities and public employees.”⁵⁴

The Oversight Board is subject to the requirements of the Brown Act (open meeting law), the Public Records Act, and the Political Reform Act. Attached to this manual as a technical appendix is an overview of the Brown Act prepared by the County Counsel’s office. You may receive formal training from the County Counsel’s office (or the City Attorney’s office of the Successor Agency city) prior to your first Oversight Board meeting.

All notices required by law for proposed actions by the Oversight Board must be posted on the Successor Agency’s Internet web site or the Oversight Board’s Internet web site.⁵⁵

Each Oversight Board member serves at the pleasure of the entity that appointed her or him. Any individual may simultaneously be appointed to up to five Oversight Boards.⁵⁶ The Governor may appoint individuals to fill any Oversight Board position not filled by May 15, 2012 or if a position is vacant for more than 60 days.

Role and Responsibilities

Fiduciary Duty

The Oversight Board has a fiduciary responsibility to holders of enforceable obligations and the taxing entities that benefit from the distribution of property tax and other revenue as a result of the dissolution of the RDAs.⁵⁷ This requires a balance that mirrors the goals of the Redevelopment Dissolution Act to honor the enforceable obligations of the former RDAs that must be paid and to return the remaining revenue to the taxing entities.

Overseeing and Directing the Successor Agency

The Redevelopment Dissolution Act contains two key sections that delineate the roles and responsibilities of the Oversight Board. Section 34180 lists the actions of the Successor Agency that require Oversight Board approval, while Section 34181 lists the actions that the Oversight Board must direct the successor agency to do. The specific provisions are included on the following pages.

A review of these provisions underscores the Oversight Board’s crucial role in scrutinizing the Successor Agency’s actions and its determination of which obligations are enforceable and, of those, which must be paid out of the Redevelopment Property Tax Trust Fund. Every obligation that is deemed enforceable reduces the amount of revenue remaining in the Trust Fund for distribution to the taxing entities.

OVERSIGHT BOARD

Section 34180

Section 34180 states that the following Successor Agency actions shall first be approved by the Oversight Board:

- a) The establishment of new repayment terms for outstanding loans where the terms have not been specified prior to June 28, 2011.
- b) The issuance of bonds or other indebtedness.
- c) Setting aside of amounts in reserves as required by indentures, trust indentures, or similar documents governing the issuance of outstanding redevelopment agency bonds.
- d) The merging of redevelopment project areas.
- e) Continuing the acceptance of federal or state grants, or other forms of financial assistance from either public or private sources, where assistance is conditioned upon the provision of matching funds, by the Successor Agency, in an amount greater than 5 percent.
- f) If a city wishes to retain any properties or other assets for future redevelopment activities, funded from its own funds and under its own auspices, it must reach a compensation agreement with the other taxing entities to provide payments to them in proportion to their shares of the base property tax for the value of the retained property.
- g) Establishment of the Recognized Obligation Payment Schedule (ROPS).
- h) A request by a Successor Agency to enter into an agreement with the city that formed the RDA that it is succeeding.
- i) A request by a Successor Agency or taxing entity to pledge or enter into an agreement for the pledge of property tax revenues.

Section 34181

Section 34181 requires the Oversight Board to direct the Successor Agency to do all of the following:

- a) Dispose of all assets and properties of the former RDA.

In some cases, the Oversight Board may instead direct the Successor Agency to transfer ownership of those assets that were constructed and used for a governmental purpose (e.g. roads, schools, parks, libraries, police and fire stations, and local agency administrative buildings) to the appropriate public jurisdiction pursuant to any existing agreements relating to the construction or use of such an asset. Any compensation to be provided to the Successor Agency for the transfer of the asset shall be governed by the agreements relating to the construction or use of that asset.

Actions related to this provision must be approved by resolution of the Oversight Board at a public meeting after providing at least 10-days notice to the public. These actions are subject to review by the DOF. The Department has 60 days to make determinations related to the transfer of these assets. However, the transfer of governmental assets to sponsoring entities may not occur until after the DOF issues a Finding of Completion and after a Long-Range Property Management Plan is approved.

- b) Cease performance in connection with and terminate all existing agreements that do not qualify as enforceable obligations.
- c) Transfer housing assets. This must be approved by resolution of the Oversight Board at a public meeting after providing at least 10-days notice to the public. These actions are subject to review by the DOF. The Department has 60 days to make determinations related to the transfer of these assets.

OVERSIGHT BOARD

Section 34181 (cont.)

Section 34181 requires the Oversight Board to direct the Successor Agency to do all of the following:

- d) Terminate any agreement, between the dissolved RDA and any public entity located in the same county, obligating the RDA to provide funding for any debt service obligations of the public entity or for the construction, or operation of facilities owned or operated by such public entity, in any instance where the Oversight Board has found that early termination would be in the best interests of the taxing entities.
- e) Determine whether any contracts, agreements, or other arrangements between the dissolved RDA and any private parties should be terminated or renegotiated to reduce liabilities and increase net revenues to the taxing entities, and present proposed termination or amendment agreements to the Oversight Board for its approval. The Oversight Board may approve any amendments to or early termination of such agreements where it finds that amendments or early termination would be in the best interests of the taxing entities.

KEY DECISIONS

KEY DECISIONS

As a member of the Oversight Board you will be reviewing contracts, agreements, financial documents and lists of enforceable obligations. You will be asked to consider whether and how to unwind transactions and how to dispose of property in order to maximize the return to the taxing entities.

The following framework outlines the order in which the Oversight Board should consider the most significant decisions or actions.

1. Elect a chairperson

Each Oversight Board must have a chairperson to facilitate proper functioning of the board, full participation during meetings, discussion of relevant matters, and effective decision making and implementation. The chairperson will be responsible for planning meetings, coordinating with board members to ensure that appropriate policies and procedures are in place for effective management of the board, and may be called upon to be the spokesperson for the board at functions or meetings. The names of all Oversight Board members and the Chairperson of the Oversight Board must be reported to the Department of Finance by May 1, 2012.

2. Designate a point of contact for the Department of Finance

Each Oversight Board must designate a point of contact for the Department of Finance (DOF) so that the DOF can effectively communicate with the Board and fulfill the state agency's oversight duties. The DOF has requested the contact's name, email, and phone number. The point of contact should share all communication to and from the DOF with the Oversight Board, including letters, emails, and phone conversations. This is particularly important for correspondence related to the ROPS.

The information can be emailed to redvelopment_administration@dof.ca.gov or you may call 916-445-1546.

3. Establish Oversight Board rules and procedures

Establishing the rules and procedures and the methods by which the Oversight Boards will operate is a top priority. The Oversight Board should put policies in place to govern the following:

- Set meeting times and dates.
- Determine who will staff the Oversight Board. The LA County Executive Office has offered to post meeting agendas and minutes, and lend other support free of charge.
- As needed, appointment of legal counsel independent of the Successor Agency.
- Provide direction to the Successor Agency as to the types of support and documentation the Oversight Board will require to consider matters presented to it. For example, the Oversight Board may wish to require the Successor Agency to use a standard template staff report for each item. In addition, the Oversight Board may wish to indicate the types of documentation it will require to review and evaluate certain types of obligations listed on the ROPS. See the “Reviewing the ROPS” section of this manual for suggestions on the types of documentation to require.
- The Oversight Board should direct the Successor Agency to submit its ROPS using the standard template attached in Appendix 2. AB 1484 requires Successor Agencies to use the form provided by the DOF. This template has been provided by the DOF and must be used to submit the ROPS.

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

Before considering the Recognized Obligation Payment Schedule (ROPS) submitted by the Successor Agency, the Oversight Board may wish to direct the Successor Agency to submit a report that documents the Agency’s predicted cash flow for the six-month period covered by the ROPS. The Successor Agency should, in effect, present a budget to the Oversight Board that provides context for the decisions. The agency should highlight any potential funding shortfalls.

This will allow the Oversight Board to quickly assess whether or not the Successor Agency has sufficient cash flow to meet each of the obligations listed on the ROPS.

5. Review and Approve Recognized Obligation Payment Schedules (ROPS)

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

The ROPS lists all enforceable obligations claimed by the Successor Agency. In many cases, the list will not provide sufficient detail for the Oversight Board to determine whether or not an item is “enforceable.” As such, the Board may find it necessary for the Successor Agency to submit staff reports that explain each claimed enforceable obligation on the ROPS. The reports do not need to be lengthy, but they should explain the background for the obligation and the source(s) of funding. The reports should also include attachments that substantiate the item’s status as an “enforceable obligation,” such as executed agreements and agency resolutions.

The Oversight Board should strive to approve the first ROPS in time to submit it to the Department of Finance by April 15, 2012. The delay in the implementation schedule caused by the *Matosantos* litigation means that by the time the Oversight Board is appointed and functioning, most of the time period covered by the first ROPS (February 1, 2012 to June 30, 2012) will have elapsed. This means that the Oversight Board will effectively be providing a meaningful review of only those expenditures scheduled for May and June of 2012 in the first ROPS.

Shortly after reviewing the first ROPS, the Oversight Board should turn its attention to reviewing the ROPS covering the period from July 1, 2012 to December 31, 2012. The Auditor-Controller has requested that the Oversight Board complete their review and submit all approved ROPS to the Auditor-Controller and the Department of Finance by April 27, 2012.

6. Approve Successor Agency administrative budget

Appointees should carefully scrutinize the Successor Agency budget to ensure that the 5% allowable funding cap for FY 2011-2012 is used efficiently and includes the cost of supporting the activities of the Oversight Board. Note that the annual allowable funding cap is reduced to 3% after July 1, 2012. The Oversight Board is allowed to reduce the \$250,000 minimum for the administrative budget, if necessary.⁵⁸

7. Terminate or approve cooperation agreements between RDAs and sponsoring entities

Most of the Cooperation Agreements between former RDAs and their sponsoring cities will likely be invalid under the Redevelopment Dissolution Act. Oversight Boards should review these Cooperation Agreements during the early months of their deliberations in order to eliminate potentially large expenditures by the Successor Agencies. Loan agreements between the former RDA and the city or county that sponsored the agency can be repaid, with Oversight Board approval, after a “Finding of Completion” is issued by the DOF.⁵⁹

KEY DECISIONS

8. Terminate all agreements that do not qualify as enforceable obligations, and ensure the cessation of all work related to said agreements

As the list of enforceable obligations is narrowed by a careful review of the ROPS, it is essential that the Oversight Board ensure that the Successor Agency is in fact terminating all agreements that are not enforceable obligations and that the Agency is not incurring additional liability in connection with such agreements. The Oversight Board may request periodic notifications of agreement terminations.

9. Terminate or renegotiate agreements with private parties

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

10. Review and consider Due Diligence Reviews

AB 1484 requires a new audit called the Due Diligence Review (DDR). The DDR is conducted to give the State a thorough accounting of the unobligated cash and cash equivalents that are available to taxing entities after enforceable obligations are paid. Each DDR consists of two elements: one for a review of housing funds, and another for the review of non-housing funds. The Oversight Board is tasked with facilitating public review sessions for both elements of the DDR and approving the DDR before the Successor Agency submits them to the DOF.⁶⁰ It is critical that the Oversight Board carefully scrutinizes these documents because the DOF is required to issue a “Finding of Completion” to Successor Agencies that complete the DDR to the DOF’s satisfaction. A Successor Agency cannot dispose of assets, reinstitute loan agreements between the RDA and its sponsoring entity, or spend bond proceeds until the DDR is complete.

11. Begin post-“Finding of Completion” activities: review and approve Long-Range Property Management Plan

After each Due Diligence Review is completed and approved by the DOF, Successor agencies are required to transmit the unencumbered balances to the county auditor-controller so that the funds can be distributed to the taxing entities. The DOF must issue a “Finding of Completion” no later than five business days after the auditor-controller notifies the DOF that the payments have been made. Once the “Finding of Completion” is issued, the Successor Agency has six months to submit a Long-Range Property Management Plan (LRPMP) for Oversight Board and DOF approval. The plan includes an inventory of all properties and details a long-range strategic plan that will govern the disposition of all properties, excluding housing assets and governmental use properties. With limited exceptions, no property may be transferred to a Successor Agency, city, or county unless the plan is approved by the Oversight Board and the DOF.⁶¹

KEY DECISIONS

12. Review loan agreements between RDA and sponsoring entities

Under AB 1484, loan agreements between the former redevelopment agency and the entity that created it are permissible once the DOF issues a “Finding of Completion.” The Successor Agency must submit the agreements for Oversight Board approval. To be deemed an enforceable obligation, the Oversight Board must find “that the loan was for legitimate redevelopment purposes.”⁶²

13. Review bond proceed expenditures

After the DOF issues a “Finding of Completion,” Successor Agencies are permitted to use the unencumbered proceeds from bonds issued on or before January 1, 2011. The proceeds must be “used for the purposes for which the bonds were sold.”⁶³ After the proceeds are used to fulfill existing enforceable obligations, any excess revenue must be listed separately on the ROPS and require Oversight Board approval. The excess proceeds must be used “in a manner consistent with the bond covenants” or they must be used to defease or purchase bonds.⁶⁴

REVIEWING THE ROPS

REVIEWING THE ROPS

Because review and consideration of the ROPS is one of the most important early responsibilities of the Oversight Boards, the classification and prioritization system outlined below will assist you in your review.

The obligations listed on the ROPS should be considered in the following priority (from highest priority to lowest):

1. Bonds
2. Loans or moneys borrowed by the agency
3. Cooperation and financial agreements between the RDA and a sponsoring entity
4. Salary and benefits obligations
5. Pass-through payments
6. Judgments and settlements
7. Disposition and Development Agreements (DDAs), Owner Participation Agreements (OPAs), Financial Assistance Agreements, and related obligations
8. Contracts or agreements necessary for the continued administration or operation of the agency
9. Items previously rejected by the DOF
10. Other/miscellaneous

REVIEWING THE ROPS

All ROPS submitted by Successor Agencies should:

1. Identify an obligation with a unique reference number (for each obligation, provide a staff report)
2. Be sorted by project area
3. Include project or debt obligation name
4. Identify the payee
5. Identify the date in which the obligation was entered into and the termination date
6. Provide a description of the obligation. If spacing is inadequate, a reference to an attachment should be made. However, information pertaining to the attachment needs to reference the category number, page number and item number.
7. A reference code for the funding source:
 - a) Low and Moderate Income Housing Fund
 - b) Bond Proceeds
 - c) Reserve Balance
 - d) Administrative Allowance
 - e) RPTTF
 - f) Other (including a description)
8. The total amount of outstanding debt or obligation
9. For each obligation, a total for the amount owed during the 6-month period covered by the ROPS
10. A sum of all payments to be made during the period covered by the ROPS
11. References and notes

REVIEWING THE ROPS

Documentation for each of the obligations listed in the ROPS should contain the following:

1. Bonds

This category includes the tax allocation bonds that RDAs issued to pay for land, building acquisition, and redevelopment in project areas. This category also includes pledges of tax increment dollars made by RDAs to finance other debt obligations, such as parking revenue bonds, notes, and other kinds of indebtedness. The Department of Finance recommends that Successor Agencies separate housing and non-housing bond payments on the ROPS.⁶⁵

Documentation should include:

- A description of the authorization
- The date authorized
- The resolution adopted by the RDA
- The resolution of the City Council authorizing the Agency to issue such bonds
- Annual debt service schedule showing the remaining annual payments due each year through the remaining life of the bonds
- Excerpts from the bond documents indicating the specific requirements and pledges of revenues to repayment of the bonds. Include documentation on the source of revenues for the bonds, e.g. property tax increment or other revenues, such as parking fees
- Excerpts from the bond documents indicating when bonds may be retired (paid off or defeased)

The ROPS should include the debt service payments that are required to meet bond obligations for both non-housing and housing bonds during the upcoming six-month ROPS period. The ROPS should also indicate the required funding source for each bond, and only bonds that required pledges of property tax increment for debt service repayment should indicate RPTTF as a funding source.

1. Bonds (cont.)

Additional bond-related payment amounts may be included on the ROPS if the Successor Agency can demonstrate that these additional funds are required to be pledged by the bond indentures. They may also be included if the next property tax allocation is anticipated to be insufficient or if it will not occur in time to pay bond debt service obligations that will be due during the next ROPS period (i.e. for the following half of the calendar year).⁶⁶

If the Successor Agency proposes to do this, then documentation should be provided to the Oversight Board regarding the necessity for these funds to be dedicated in the upcoming ROPS period, and these funds should be kept in a special account for bond payment purposes. (See the documentation list on pg. 48.) The Oversight Board must approve the Successor Agency's setting aside or replenishment of reserve amounts required in bond indentures, trust indentures, or similar bond documents.⁶⁷

AB 1484 allows for additional funds that are required for the payment of bond obligations to be held in reserves.⁶⁸ If the Successor Agency proposes to include additional RPTTF funds to meet bond obligations payable from property tax increment, the following information and analysis should be provided for each bond:

- Excerpts from bond documents indicating the requirements (bond covenants) regarding both the schedule of debt service payments and pledges of property tax increment, including any required reserve amounts.
- Annual debt service schedule and cash flow analysis indicating why additional funds are needed to meet outstanding bond debt service obligations secured by property tax increment.
- Demonstration that funds dedicated to bond debt service payments and/or reserves will be placed in a separate fund and only used for bond repayment purposes.

REVIEWING THE ROPS

1. Bonds (cont.)

Successor Agencies are required to continue to oversee development of properties until the contracted work has been completed or the contractual obligations of the former RDA can be transferred to other parties. Bond proceeds must be used for the purposes for which the bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds.⁶⁹ This requirement applies to bond-funded projects that are contracted for phased completion. For example, if a development were to reach the end of a phase of completion sufficient to sell the project or end development, and the Oversight Board instructs the Successor Agency to act accordingly, any unspent bond proceeds remaining can be used to repay or defease the bonds.

2. Loans or Moneys Borrowed by the Agency other than Bonds

This category includes advances or loans that have an established repayment schedule. Examples include loans from the Low and Moderate Income Housing Fund and loans from other public agencies, such as the California Housing Agency or the U.S. Department of Housing and Urban Development Section 108 loans.⁷⁰

Documentation should include:

- A description of the authorization
- The date authorized
- The resolution adopted by the Agency and the resolution of the City Council authorizing the Agency to incur the indebtedness
- The total amount of the original obligation

3. Cooperation and Financial Agreements Between the RDA and a Sponsoring Entity

This category includes agreements, contracts, or arrangements that RDAs entered into with their sponsoring city, county, or another local agency. In some cases the agreements were made with local entities that were controlled by the RDA's sponsoring city or county. These agreements allowed the sponsoring local entity to carry out the existing and future work of the RDA. Typically, these obligations are not enforceable; however, there is an exception. Loan agreements between an RDA and its sponsoring entity are valid if they were entered into within two years of the date of creation of the redevelopment agency. These agreements are also valid if they meet the following two conditions: (1) the agreement must have been entered into when the debt obligation was issued and (2) the agreement must be “for the sole purpose of securing, or repaying indebtedness obligations written prior to December 31, 2010.”⁷¹

These agreements can be repaid if the DOF issues a “Finding of Completion.” After the Finding is issued, the Oversight Board considering the agreement must find that “the loan was for legitimate redevelopment purposes” for it to be deemed an enforceable obligation.⁷² The terms of the repayment are governed by AB 1484.

Documentation should include:

- A copy of the cooperation agreement
- Documentation of authorization or approval
- Date of RDA creation

REVIEWING THE ROPS

4. Salary and Benefits Obligations

This category includes payments required “by the federal and state governments in connection with agency employees.” It includes “payments such as salaries, pension payments, pension obligation debt service, and unemployment payments.”⁷³ Additionally, it includes the existing terms of any Memorandums of Understanding (MOUs) between employee organizations and the former RDA. These MOUs, adopted pursuant to the Meyers-Milias-Brown Act, must have been in force on the effective date of ABx1 26 and shall continue in force until September 30, 2011 unless a new agreement is reached with a recognized employee organization prior to that date.

Documentation should include:

- A copy of the operational MOU
- Copies of amendments to the operational MOU
- A copy of the fringe benefits MOU
- Copies of amendments to the fringe benefits MOU

5. Pass-Through Payments

Pass-through payments may appear on the first ROPS (covering January 1, 2012 to June 30, 2012). Starting on the second ROPS (covering July 1, 2012 to December 31, 2012), the County Auditor-Controller will make the required pass-through payments prior to transferring money to the Successor Agency to pay enforceable obligations.⁷⁴ Therefore, starting with the second ROPS, pass-through payments do not need to be identified. Please consult with the Auditor-Controller regarding how to handle reviewing these obligations.

6. Judgments and Settlements

This category includes payments related to court or other binding decisions. However, it does not apply to ongoing or potential litigation and it does not authorize the creation of a reserve for potential litigation. These items include settlements entered by a court of law or binding arbitration decisions against the former redevelopment agency. This category excludes pass-through payments. The Successor Agency and the Oversight Board have the “authority and standing to appeal any judgment or to set aside any settlement or arbitration decision.”⁷⁵

Documentation should include:

- Copy of the entered judgment or settlement

7. Disposition and Development Agreements (DDAs), Owner Participation Agreements (OPAs), Financial Assistance Agreements, and Related Obligations

This category includes agreements related to real estate transactions. They apply to specific developments within a project area and may pertain to land acquisition, the disposition of existing assets, public improvements, and advances made by the RDA to developers. These agreements are complex, with contract terms that are often amended and extended; therefore, the information indicated on the ROPS should be supplemented.

Documentation should include:

- A staff report summarizing the project that includes the financial obligation of the agency and the schedule of performance
- Documentation of authorization of approval of the OPA/DDA and amendments by the former RDA
- Signed certification from the developer that states that the agreement is in full force and effect and that all conditions precedent have been satisfied for payment of the obligation

REVIEWING THE ROPS

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

This category includes obligations that allow the Successor Agency to wind down the former RDAs business and carry out existing obligations. Obligations may include office space rent, equipment, supplies, insurance and services.⁷⁶

Documentation should include:

- A staff report summarizing the need for services
- Evidence that goods and services have been provided
- A copy of the approved contracts or agreements and any amendments that demonstrate the Successor Agency's obligation pay

9. Items Previously Rejected by the DOF

This category includes any obligations or payments that were previously rejected by the Department of Finance. Per the DOF's instructions, these items may appear on the January through June 2013 ROPS. These items "should be identified in the Notes form including a reference to the correspondence and/or supporting documents provided Finance." For these items, the Oversight Board should review the DOF's determination letters regarding the rejected item(s). Before approving the inclusion of these items on the ROPS, the Oversight Board should ask the Successor Agency to produce additional documentation that addresses the issues raised by the DOF.

10. Other/Miscellaneous

This category includes any obligations or payments that are not included in the other nine categories. Documentation for these obligations should be determined on a case-by-case basis.

REVIEWING THE ROPS

The DOF has issued determination letters for many of the cities in Los Angeles County.

Review these letters to get a better understanding of why certain items were rejected or reduced by the DOF. These letters should provide guidance for what items on subsequent ROPS should be removed or amended, and what additional information might be necessary to support obligations listed on the ROPS.

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DUE DILIGENCE REVIEW

DUE DILIGENCE REVIEW

The Due Diligence Review (DDR) is a new requirement that must be completed by all Successor Agencies.

The purpose of the review is to get a precise accounting of the unobligated balances that are available for distribution to the taxing entities.⁷⁷

The review requires the Successor Agency to hire a licensed accountant approved by the county auditor-controller.⁷⁸ That accountant will complete a thorough review of all of the former redevelopment agency's assets, liabilities, and outstanding obligations. The DDR will determine what amounts Successor Agencies need to fulfill enforceable obligations, what resources are available to satisfy those obligations, and what amounts will be available to taxing entities after all enforceable obligations are retired.

The DDR requires Oversight Board and Department of Finance (DOF) approval.⁷⁹ The Oversight Board also facilitates the public review process for the DDR.⁸⁰ The DOF will make final determinations regarding amounts outlined in the DDR.⁸¹

After a successor agency remits the full balance of the uncommitted funds to the affected taxing entities, the Department of Finance (DOF) will issue a "Finding of Completion."⁸² The Finding of Completion will allow the Successor Agency to take several actions, including beginning the process of asset disposition, reinstating some loan agreements, and spending unencumbered bond proceeds.

DUE DILIGENCE REVIEW

Elements of the DDR

At this time, DOF has not provided guidance beyond what is contained in AB 1484 regarding the specific contents and format of the DDR. It is expected that DOF will provide further clarification at a future date. Based on the provisions in AB 1484, each DDR must include the following information:

- 1. The dollar value of all assets transferred from the former RDA to the Successor Agency** upon dissolution of the RDA as of February 1, 2012.”⁸³
- 2. The dollar value of assets, cash, and cash equivalents transferred by the former RDA or Successor Agency to its sponsoring city or county between January 1, 2011 and June 30, 2012.**⁸⁴
- 3. The dollar value of assets, cash, and cash equivalents transferred by the former RDA or Successor Agency to any public or private entity other than the former RDA’s sponsoring entity.**⁸⁵ This accounting must include any transfers that happened between January 1, 2011 and June 30, 2012. For these items, the Review must “provide documentation of any enforceable obligation that required the transfer.”⁸⁶ If the property was transferred improperly to the sponsoring entity, another public entity, or a private entity (i.e., because no legitimate enforceable obligation existed), the value of cash and non-cash assets will be added to the net balance available to taxing entities.⁸⁷
- 4. Expenditure and revenue accounting information**, identifying transfers and funding sources for the 2010-11 and 2011-12 fiscal years. This accounting should reconcile “balances, assets, and liabilities of the successor agency on June 30, 2012 to those reported to the [State] Controller for the 2009-10 fiscal year.”⁸⁸

DUE DILIGENCE REVIEW

Elements of the DDR (cont.)

Based on the provisions in AB 1484, each DDR must include the following information:

- 5. An accounting for the balances in all funds.** The review will include two separate accountings – one for the Low and Moderate Income Housing Fund (housing), and one for all other funds (non-housing).⁸⁹ For each fund, the review must contain the following:
 - a. A statement of the total value of each fund as of June 30, 2012.**⁹⁰
 - b. An itemized statement that lists all amounts that are legally restricted and unavailable for distribution to taxing entities.** These items may include “the proceeds of any bonds, grant funds, or funds provided by other governmental entities that place conditions on their use.”⁹¹
 - c. An itemized list of non-cash or cash-equivalent assets, including the valuation of each item.** This list may include “physical assets, land, records, and equipment.” Physical assets “may be valued at purchase cost or at any estimated market value.”⁹²
 - d. An itemized list of any balances that are dedicated to fund enforceable obligations.** This list must identify the nature of the dedication and the specific enforceable obligation.⁹³

DUE DILIGENCE REVIEW

Elements of the DDR (cont.)

Based on the provisions in AB 1484, each DDR must include the following information:

- 5. An accounting for the balances in all funds.** The review will include two separate accountings – one for the Low and Moderate Income Housing Fund (housing), and one for all other funds (non-housing). For each fund, the review must contain the following:
 - e. A list of all approved enforceable obligations, including a projection of “annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements.”**⁹⁴ If future revenues and previously dedicated funds are insufficient to cover the costs of the enforceable obligations, then the Review will identify the amount of current balances that must be retained to satisfy the obligations.
 - f. A projection of “property tax revenues and other revenues to be received by the successor agency.”**⁹⁵
 - g. An accounting for the amounts and timing of bond debt service payments** “for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay” specific obligations.⁹⁶
 - h. An itemized list of any amounts that will need to be deducted from current fund balances to satisfy “obligations that will be placed on the [ROPS] for the current fiscal year.”**⁹⁷

DUE DILIGENCE REVIEW

Elements of the DDR (cont.)

Based on the provisions in AB 1484, each DDR must include the following information:

- 6. The Review will total the net balances for each fund after deducting amounts that are legally restricted and those amounts that are required to satisfy enforceable obligations.** Note that any amounts that were transferred improperly will be added to the net balance. This sum will “be available for allocation to affected taxing entities.”⁹⁸

Unless the Successor Agency provides evidence to the contrary, it will be assumed that the cash and cash balances available to the Successor Agency will be “sufficient to disburse” the funds to the taxing entities.⁹⁹ If the Review finds that there are insufficient cash balances to make the payments to the affected taxing entities, that amount must be “demonstrated in an additional itemized schedule.”¹⁰⁰

DUE DILIGENCE REVIEW

Penalties

The Oversight Board should be aware that there are penalties if Successor Agencies are unable to pay the full amount owed to taxing entities. To recover funds from improper transfers, there are several remedies available to the state, including:

- Offsets of sales and use tax or property tax allocations to the local agency that received the transferred assets¹⁰¹
- An offset of sales and use tax revenue to the city or county that created the former RDA¹⁰²
- A deduction in future allocations of property tax to the successor agency¹⁰³

For transfers to private entities, funds can be recovered “through any lawful means of collection” if transfers are not repaid within 60 days. These funds are also subject to a ten percent penalty, plus interest.¹⁰⁴

If payment of the full amount “is not currently feasible or would jeopardize the ability of the successor agency to pay enforceable obligations,” then the Department of Finance “may agree to an installment plan.”¹⁰⁵

Selecting an Accountant

The Oversight Board has no oversight role in the selection process for the accountant that will conduct the Due Diligence Review. Instead, the county auditor-controller must approve the Successor Agency’s selection.¹⁰⁶ In Los Angeles County, the auditor-controller’s office sent letters outlining the approval process to Successor Agencies on July 19, 2012.¹⁰⁷

The Oversight Board will have to approve funding for the accountant conducting the DDR if the expense is listed on the ROPS as an enforceable obligation.

DUE DILIGENCE REVIEW

Timeline for Completing the Review

The review will include two separate accountings – one for the Low and Moderate Income Housing Fund (housing), and one for all other funds (non-housing). Each review has its own timeline for public comments, oversight board approvals, and final determinations from DOF.

Below is an overall timeline for the DDR process:

OCT 1 2012	Deadline for the Successor Agency to submit the DDR for the Low and Moderate Income Housing Fund to the Oversight Board.
OCT 8 2012	Deadline for the Oversight Board to convene a public comment session regarding the Housing DDR.
OCT 15 2012	Deadline for the Successor Agency to submit an Oversight Board-approved DDR to the DOF.
NOV 9 2012	The DOF makes final determinations on the DDR for housing.
DEC 15 2012	Deadline for the Successor Agency to submit the DDR for all non-housing funds to the Oversight Board.
JAN 8 2013	Deadline for the Oversight Board to convene a public comment session regarding the non-housing DDR.
JAN 15 2013	Deadline for the Successor Agency to submit an Oversight Board-approved DDR to the DOF.
APR 1 2013	The DOF makes final determinations on the DDR for non-housing funds.

DUE DILIGENCE REVIEW

Housing DDR Timeline

The Successor Agency must submit the housing DDR to the Oversight Board by October 1, 2012.¹⁰⁸ When the Oversight Board receives the housing Review it must convene a “public comment session” at least five business days before the Oversight Board considers approval of the DDR.¹⁰⁹ Hence, the approval process for the DDR will require two separate Oversight Board meetings. An Oversight Board-approved housing DDR must be submitted to the DOF by October 15, 2012, so the public comment session must occur no later than October 8, 2012.¹¹⁰

The Oversight Board is authorized to “adjust any amount provided in the review to reflect additional information and analysis.”¹¹¹ Under AB 1484, the Oversight Board can also require the Successor Agency to provide additional materials to assist in its review and approval of the DDR. The Oversight Board must “consider any opinions offered by the county auditor-controller on the review results.”¹¹² After the Oversight Board approves the DDR, the document is sent to the DOF and the auditor-controller for review.

The DOF will make final determinations on the housing DDR by November 9, 2012, and will notify the Oversight Board and Successor Agency of its decision. The Successor Agency then has five business days to remit payment of the unobligated balances to the county auditor-controller so that the funds can be distributed to the affected taxing entities.

If the Successor Agency contests any of the DOF’s findings, it can request a meet and confer process to settle disputes. This request must be made within five business days of DOF’s notice of determination and no later than November 16, 2012 for the housing DDR. The DOF must “confirm or modify its determinations and decisions within 30 days of the request to meet and confer.”¹¹³ The Oversight Board is unlikely to be involved in the meet and confer process.

DUE DILIGENCE REVIEW

Non-Housing DDR Timeline

The process for submittal of the non-housing DDR mirrors the procedure for the housing DDR. Successor Agencies will submit the non-housing DDR for Oversight Board consideration by December 15, 2012.¹¹⁴ An Oversight Board-approved DDR must be submitted to the DOF and the county auditor-controller by January 15, 2013.¹¹⁵

The non-housing DDR will also require two separate meetings to facilitate a public comment session and the subsequent approval meeting. In this case, the Oversight Board must convene a meeting for public comment by January 8, 2013.

Like the housing DDR, the Oversight Board is permitted to adjust amounts in the Review, request additional information from the Successor Agency, and must consider the opinions of the county auditor-controller. The DOF will make final determinations about the amounts listed in the DDR by April 1, 2013.¹¹⁶

Remitting Payment of Unencumbered Balances and a Finding of Completion

The Successor Agency has five business days after the determination of the amount owed to remit payment of the unobligated balances to the county auditor-controller so that the funds can be distributed to the taxing entities.¹¹⁷ After the auditor-controller reports to the DOF that the unencumbered balances were paid in full, then DOF must issue a “Finding of Completion” to the Successor Agency within five business days.¹¹⁸

If the Successor Agency contests any of the DOF’s findings, it can request a meet and confer process to settle disputes. The Oversight Board is unlikely to be involved in the process, but Board members should note that the meet and confer process will delay the timeline for the DOF’s issuance of a “Finding of Completion.”

DISPOSITION OF REAL PROPERTY

DISPOSITION OF REAL PROPERTY

Disposition of Real Property and the Long-Range Property Management Plan

AB 1484 modifies the property disposition initiated by the Dissolution Act, which had called for the prompt disposition of most former RDA non-housing properties into the private market with some specific exceptions for property in governmental use. Under 1484, Successor Agencies that have received a Finding of Completion from the Department of Finance (Spring 2013) will have more flexibility in how they dispose of former RDA properties. Within six months of receipt of a Finding of Completion, a Successor Agency is directed to prepare a Long-Range Property Management Plan (LRPMP) and submit it to the Oversight Board and Department of Finance (DOF) for approval. The LRPMP must address the disposition and use of the real properties of the former RDA.¹¹⁹ In some cases, property transfers may occur prior to receipt of a finding of completion and approval of a LRPMP. However, due to the complexities in the law, Oversight Boards should discuss such matters on a case-by-case basis with independent counsel.

Under 1484, property cannot be transferred to a Successor Agency, city, county, or city and county until the Oversight Board and the DOF have approved the LRPMP.¹²⁰ With the exception of housing assets and possibly governmental use properties, the disposition of properties is also suspended until after DOF approves the LRPMP. (There is some ambiguity about whether governmental use properties are subject to this suspension, but as governmental use properties are narrowly defined, this may have limited applicability. See below for more information regarding governmental use property.)

A newly created Community Redevelopment Property Trust Fund, administered by the Successor Agency, serves as the repository for real properties of the former RDA that are not considered housing assets.¹²¹ All non-housing real property identified in the Due Diligence Review, unless subject to requirements of any existing enforceable obligation, will be transferred to the the Community Redevelopment Property Trust Fund upon approval of the LRPMP.¹²²

With the exception of housing asset transfers, any disposition or transfer of assets prior to completion of the LRPMP should be carefully scrutinized by the Oversight Board.

DISPOSITION OF REAL PROPERTY

Long-Range Property Management Plan

Successor Agencies must prepare and submit the LRPMP first to the Oversight Board for approval and then to DOF within six months of receiving a Finding of Completion.¹²³ The LRPMP is required to include an inventory of all former RDA properties and describe the planned use or disposition of each property in the Community Redevelopment Property Trust Fund, which can only include:¹²⁴

1. Retention of the property for governmental use pursuant to Section 34181(a)
2. Retention of the property for future development
3. Sale of the property
4. Use of the property to fulfill an enforceable obligation

The LRPMP must separately identify and list properties dedicated for governmental use purposes and properties retained for purposes of fulfilling an enforceable obligation. The inventory of properties in the LRPMP must include the following information for each property:¹²⁵

- **Date of acquisition and value of the property** at that time, and an estimate of its current value.
- **Purpose for which the property was acquired.**
- **Parcel data**, including address, lot size, and current zoning in the former agency redevelopment plan or specific, community, or general plan.
- **Estimate of the current value** including, if available, any appraisal information.
- **Estimate of any lease, rental, or any other revenues** generated by the property, and a description of the contractual requirements for the disposition of those revenues.
- **History of environmental contamination**, including designation as a brownfield site, any related environmental studies, and history of any remediation efforts.
- **Description of its potential for transit-oriented development** and the advancement of the planning objectives of the Successor Agency.
- **Brief history of previous development proposals and activity**, including the rental or lease of property.

DISPOSITION OF REAL PROPERTY

Long-Range Property Management Plan (cont.)

Once the Successor Agency submits the LRPMP, the Oversight Board and the DOF must both approve the plan before any non-housing property transfer or disposition can occur. If the LRPMP directs the use or sale of a property for a project identified in an approved redevelopment plan, the property shall transfer to the sponsoring community. If the LRPMP directs the sale of the property or the use of revenues generated from the property, such as lease or parking revenues, for any purpose other than to fulfill an enforceable obligation or for a project identified in an approved redevelopment plan, the proceeds from the sale shall be distributed as property tax to the taxing entities.¹²⁶

Oversight Board meetings considering disposition of property require a 10-day public notice.¹²⁷

Governmental Use Properties

Governmental use property is defined as “assets that were constructed and used for a governmental purpose, such as roads, school buildings, parks, police and fire stations, libraries, and local agency administrative buildings.”¹²⁸

While the Successor Agency may sell and transfer governmental use properties prior to approval of a LRPMP, as described above, property shall not be transferred to a Successor Agency, city, county, or city and county unless DOF has approved the LRPMP.¹²⁹ Therefore, pending approval of the LRPMP, the law appears to indicate that the Successor Agency may only transfer governmental use properties to entities that are NOT the city, county, or city and county.

HOUSING

AB 1484 clarifies several housing-related issues under the Redevelopment Dissolution Act.

The bill defines housing assets, establishes procedures for transferring housing assets, provides greater flexibility in the use of housing bond proceeds, establishes a Low and Moderate Income Housing Asset Fund (LMIHAF) to be administered by the Housing Successor Agency, and clarifies that no future housing set aside deposits are required.

Housing Assets/Low and Moderate Income Housing Asset Fund

Under AB 1484, redevelopment housing assets must transfer to, and be managed by, the Housing Successor Agency, which is a separate entity from the Successor Agency. With the exception of housing assets needed to repay bond indebtedness, which are retained by the Successor Agency, revenues generated from Housing Assets described below are required to be deposited into a new “Low and Moderated Income Housing Asset Fund” (LMIHAF) to be managed by the Housing Successor Agency. The housing assets defined by AB 1484 include:

- 1. Real property**, including interest in and restrictions on real property, personal property provided in residences such as furniture and appliances, loan documents, software licenses, acquired for affordable housing purposes with any source of funds.¹³⁰
- 2. Funds encumbered by an enforceable obligation** to build or acquire affordable housing.¹³¹
- 3. Loans or grants receivables** funded by the former agency’s LMIHF, to be repaid by a developer, homeowner, or other parties that require occupancy by low- or moderate-income households as defined by the CRL.¹³²
- 4. Rents and payments from operations** including residual receipts, grant repayments, savings from refinancings and other related funds.¹³³
- 5. Rent and payments from operations used to maintain affordability** of housing, financed with any source of funds.¹³⁴

Housing Assets/Low and Moderate Income Housing Asset Fund (cont.)

The housing assets defined by AB 1484 include:

6. **Repayments of loans or deferrals owed to the LMIHF** such as monies borrowed from the LMIHF by the sponsoring community to make state-mandated contributions to the Educational Revenue Augmentation Funds (ERAF) or deferrals of required 20 percent housing set aside deposits.¹³⁵ Repayments can begin in Fiscal Year 2013/2014, with a maximum annual payment limited by statute. Repayment of these loans or deferrals takes priority over repayments of loan agreements entered into between the former redevelopment agency and the city or county that created it.¹³⁶

7. **“Excess housing bond proceeds”** from bonds issued prior to January 1, 2011 for housing purposes.¹³⁷

Unencumbered amounts from the LMIHF as of the effective date of the Dissolution Act are not considered Housing Assets and are required to be distributed to the taxing entities.¹³⁸ Moreover, AB 1484 clarified that Successor Agencies are not required to make future set aside payments of 20% of tax increment.¹³⁹ (See pg. 8 for information on the 20% housing set aside.)

Oversight Board Role in Housing Assets

The Oversight Board plays an important role related to three types of housing assets, including amounts owed to the LMHF, mixed-use assets with an affordable housing component, and housing asset transfers after a certain date.

- 1. The schedule for repayment of amounts owed to LMHF** must be approved by the Oversight Board.¹⁴⁰
- 2. Disposition of mixed-use properties.** If a development includes affordable housing that meets the definition of housing asset and other property uses, such as a commercial or governmental use, the Oversight Board must determine whether the property should remain intact or be split into affordable housing and non-affordable housing components. In making this decision, the Oversight Board must consider the overall value to the community as well as the benefit to the taxing entities of keeping the entire development intact or dividing the title and control over the property between the Housing Successor and the Successor Agency or other public or private agencies. The disposition of the assets may be accomplished by a revenue sharing arrangement as approved by the Oversight Board on behalf of the affected taxing entities.¹⁴¹
- 3. Transfer of any housing asset.** The Housing Successor Agency must submit to DOF a list of housing assets transferred between February 1, 2012 and the date the list is submitted. The list must be submitted by August 1, 2012, and DOF has 30 days to object to any assets or transfers of assets identified on the list. If DOF objects, the Housing Successor Agency has five business days to request a meet and confer.¹⁴² In the event that a Successor Agency fails to transfer a housing asset by that date, the Oversight Board must direct the Successor Agency to transfer the asset. Such an Oversight Board action must be approved by resolution at a public meeting after at least 10 days public notice. The action is subject to DOF review.¹⁴³

Housing assets can be used by the Housing Successor Agency for any purpose allowed under community redevelopment law without approval by the Oversight Board or DOF.

Oversight Board Role in Housing Assets (cont.)

- 4. Excess housing bond proceeds.** The Oversight Board approves the use of excess housing bond proceeds, which are housing bond proceeds from housing bonds issued prior to January 1, 2011 and backed by the LMIHF. These are housing bond proceeds that: (1) remain after the satisfaction of housing enforceable obligations; (2) have been included in an approved ROPS; and (3) whose intended use is consistent with the housing bond covenants. If the Housing Successor Agency intends to commit such funds, it must notify the Successor Agency at least 20 days before the deadline to submit the ROPS to the Oversight Board. The expenditure of excess housing proceeds must be listed separately on the ROPS. The commitment of these fund is not valid and binding until they are included on an approved and valid ROPS. The reviews of the Successor Agency, Oversight Board and DOF are limited to a determination that the use of the funds is consistent with the housing bond covenants and that sufficient funds are available.¹⁴⁴

Housing Due Diligence Report

The Successor Agency is required to submit a Due Diligence Report (DDR) to the DOF by October 15, 2012 outlining the following (refer to pg. 64 for the Housing DDR timeline):¹⁴⁵

1. Value of the assets the Housing Successor Agency holds, those assets transferred to city/county between January 2011 and June 2012, and the balances in all of its funds, including the LMIHF
2. Funds that are legally restricted or dedicated to an enforceable obligation
3. All enforceable obligations and the projected revenue needed to fund them, including whether cash balances are needed.

The DDR process for Housing and Non-Housing Assets is described in greater detail in the previous section (pg. 56-66).

Housing Requirements Related to Reinstatement of Cooperation and Financial Agreements

Upon the “Finding of Completion” and Oversight Board approval, Successor Agencies are allowed to make payments on cooperation and financial agreements between the former RDAs and their sponsoring communities.¹⁴⁶ AB 1484 requires that any repayments to the sponsoring community must first be used to retire debts owed to the former LMIHF (such as those borrowed to make SERAF payments). After debts to LMIHF are retired, the sponsoring community is required to deposit 20 percent of amounts received as repayments from the Successor Agency into the new LMIHAF.



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BONDS

The Oversight Board must approve the issuance of bonds, other indebtedness, or any pledge or agreement to pledge property tax revenues.¹⁴⁷

The Oversight Board must also approve the setting aside of reserve funds as required by indentures, trust indentures, or similar documents governing the issuance of outstanding bonds.¹⁴⁸

The Oversight Board must approve the expenditure of any excess bond proceeds, which are proceeds from bonds issued prior to January 1, 2011 that are not already pledged to enforceable obligations.¹⁴⁹ If the Housing Successor Agency intends to commit excess bond proceeds, it must notify the Successor Agency at least 20 days before the deadline to submit the ROPS to the Oversight Board, and these expenditures must be listed separately on the ROPS.¹⁵⁰ (Please refer to the Housing Section, pg.71-77 for more information.) Upon the “Finding of Completion” and the inclusion of expenditures on an approved ROPS, Successor Agencies are allowed to spend non-housing bond proceeds.¹⁵¹ (Please refer to the Due Diligence Review Section, pg. 57-66 for more information.)

If approved by the Oversight Board, the Successor Agency can undertake the following activities with respect to issuing bonds or incurring additional indebtedness.¹⁵²

Refund Bonds: issue bonds or incur other indebtedness to refund bonds if this action will result in overall savings and provide the following for these bonds or other indebtedness:

- a) total interest cost to maturity plus the principal amount does not exceed the total remaining interest cost to maturity plus the remaining principal of the bonds or other indebtedness to be refunded, and
- b) the principal amount does not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt service reserves, and to pay related costs of issuance.

Finance Debt Service Spikes: issue bonds or incur other indebtedness to finance debt service spikes, including balloon maturities, if the:

- a) existing indebtedness is not accelerated, except to the extent necessary to achieve substantially level debt service, and
- b) the principal amount of the bonds or other indebtedness does not exceed the amount required to finance the debt service spikes, including establishing customary debt service reserves and paying related costs of issuance.¹⁵³

If approved by the Oversight Board, the Successor Agency can undertake the following activities with respect to issuing bonds or incurring additional indebtedness. (cont.)

Restructure Debt of a Political Subdivision of the State: amend an existing enforceable obligation to reimburse a political subdivision of the State for the payment of debt service on a bond or other obligation, or pay all or a portion of the debt service on a bond or other obligation to provide savings, under specific circumstances outlined in Health & Safety Code Section 34177.5 (a)(3).¹⁵⁴

Pledged Debt Required by Enforceable Obligations: issue bonds or incur other indebtedness in order to make payments as required under the terms of an enforceable obligation that requires the irrevocable pledge of property tax increment or other funds and the obligation to issue bonds secured by that pledge. However, the law specifically does not authorize any increase in the amount of property tax revenues pledged under an enforceable obligation or allow the pledge of any additional property tax revenue that is not already pledged.¹⁵⁵

With any of the above actions, the Successor Agency must work diligently to ensure that the lowest long-term cost financing is obtained, it does not provide for any bullets or spikes, and the bonds do not have variable rates. The Successor Agency must also retain an independent financial advisor in developing financing proposals and shall make the work products of the financial advisor available to the Department of Finance at its request.¹⁵⁶

Bond proceeds must be used for the original purposes for which bonds were sold.

If those purposes can no longer be achieved, the proceeds may be used to defease the bonds.¹⁵⁷ Given the wide range of bonds and other indebtedness incurred by former redevelopment agencies, the bond terms and restrictions on the use of bond proceeds must be carefully reviewed by bond counsel and experts in bond transactions to determine the best approach for refinancing debt, issuing new debt to meet enforceable obligations or defeasing bonds. In addition, a rigorous analysis should be prepared that demonstrates the legal and financial basis for any actions proposed by the Successor Agency with respect to bonds. The Oversight Board should be provided with this analysis prior to any decisions it is asked to make with respect to bonds.



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**EXPECTATIONS
&
RESOURCES**

EXPECTATIONS & RESOURCES

Expectations as an Appointee

The Redevelopment Dissolution Act states that the Oversight Board “may direct the staff of the successor agency to perform work in furtherance of the oversight board’s duties and responsibilities.”¹⁵⁸ In addition, the legislation states that the Successor Agency shall pay for all costs associated with meetings of the Oversight Board.

Resources

As an Oversight Board member you may find that access to a variety of resources assists in performing your duties. They include the following:

- **The County of Los Angeles has launched a website for Oversight Board Members:** <http://redevelopmentdissolution.lacounty.gov/>. This website provides a variety of information that is useful to successor agencies and oversight board members within the county, and features the following content:
 - An oversight board meeting calendar that lists meetings for all 71 LA County successor agencies, with downloadable copies of oversight board meeting agendas
 - Training videos
 - Slideshows used by the LA County Redevelopment Dissolution Coordination Team during training presentations
 - Links to important legislation and court decisions, including an annotated version of AB 1484 that is helpful for looking up key sections by topic.
 - A Frequently Asked Questions section based on questions received from successor agencies and oversight board members.
- **Department of Finance website:** http://www.dof.ca.gov/assembly_bills_26-27/view.php
- **The Successor Agency** can perform work that directly supports the fulfillment of the Oversight Board’s duties.
- **The [County Auditor-Controller](#)** may be able to provide information related to the ROPS, assets held by the Successor Agency, and other financial matters.
- **County Counsel** will be available to assist with legal matters associated with the fulfillment of your duties. However, Oversight Boards are encouraged to seek advice from their independent counsel.
- **Staff Analyses** conducted by the Successor Agency will give context for specific projects, assets, and obligations listed on the ROPS.
- **The County of Los Angeles Chief Executive Office** has created the following email account for Oversight Board member queries: oversightboard@ceo.lacounty.gov
- **The California Department of Finance (DOF) has provided an email “hotline”** for any Oversight Board members to report what they believe may be questionable actions taken by Successor Agencies. Email redemption_hotline@dof.ca.gov to report any actions you think may be improper.

END NOTES

END NOTES

1. A separate Successor Housing Agency manages the RDAs housing assets, including "property, rental property, rental payments, bond proceeds, lines of credit, certain loan repayments, and other small revenue sources." From: Taylor, M. (2012). *The 2012-13 Budget: Unwinding Redevelopment*. Legislative Analyst's Office, Sacramento, CA: pg. 15; Housing assets are defined in Health and Safety Code §34176(e)
2. Health & Safety Code §33131(a); Housing assets are defined in Health & Safety Code §34176(e)
3. [Community Redevelopment Association v. Matosantos](#): pg. 9
4. Beatty, D. et al. (2004). *Redevelopment in California*. Solano Press Books, Point Arena, CA: 209-10
5. Health & Safety Code §34169
6. Health & Safety Code §34176(e)(6)
7. Health & Safety Code §34176(f)
8. Taylor, M. (2012). *The 2012-13 Budget: Unwinding Redevelopment*. Legislative Analyst's Office, Sacramento, CA: pg. 8
9. Taylor, M. (2012). *The 2012-13 Budget: Unwinding Redevelopment*. Legislative Analyst's Office, Sacramento, CA: pg. 8
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END NOTES

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35. Health & Safety Code §34177(l)(3)
36. Health & Safety Code §34179(h)
37. Health & Safety Code §34177(m)
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41. Health & Safety Code §34182.5
42. Health & Safety Code §34182(f)
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END NOTES

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76. Health & Safety Code §34167(d)(6)
77. Health & Safety Code §34179.5(a)
78. Health & Safety Code §34179.5(a)
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97. Health & Safety Code §34179.5(c)(5)(E)
98. Health & Safety Code §34179.5(c)(6)
99. Health & Safety Code §34179.5(c)(6)

END NOTES

100. Health & Safety Code §34179.5(c)(6)
101. Health & Safety Code §34179.6(h)(1)(A)
102. Health & Safety Code §34179.6(h)(1)(C)
103. Health & Safety Code §34179.6(h)(2)
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113. Health & Safety Code §34179.6(e)
114. Health & Safety Code §34179.6(c)
115. Health & Safety Code §34179.6(c)
116. Health & Safety Code §34179.6(d)
117. Health & Safety Code §34179.6(f)
118. Health & Safety Code §34179.7
119. Health & Safety Code §34191.5(b)
120. Health & Safety Code §34191.5(c)(2)(C)
121. Health & Safety Code §34191.4(a)
122. Health & Safety Code §34191.4(a)
123. Health & Safety Code §34191.5(b)
124. Health & Safety Code §34191.5(c)(2)
125. Health & Safety Code §34191.5(c)(1)
126. Health & Safety Code §34191.5(c)(2)(A) & §34191.5(c)(2)(B)

END NOTES

127. Health & Safety Code §34181(f)
128. Health & Safety Code §34181(a)
129. Health & Safety Code §34191.5(c)(2)(C)
130. Health & Safety Code §34176(e)(1)
131. Health & Safety Code §34176(e)(2)
132. Health & Safety Code §34176(e)(3)
133. Health & Safety Code §34176(e)(4)
134. Health & Safety Code §34176(e)(5)
135. Former RDAs were required to make deposits into the LMIHF pursuant to Section 33334.2. However, Section 33334.6 allowed Agencies to defer deposits upon certain RDA findings. Any deferred deposits must be repaid as they are considered indebtedness of the former RDAs.
136. Health & Safety Code §34176(e)(6)(A) and §3416(e)(6)(B)
137. Health & Safety Code §34176(g)
138. Health & Safety Code §34177(d)
139. Health & Safety Code §34163(c)(4)
140. Health & Safety Code §34171(d)(1)(G)
141. Health & Safety Code §34176(f)
142. Health & Safety Code §34176(a)(2)
143. Health & Safety Code §34181(c) and §34181(f)
144. Health & Safety Code §34176(g)
145. Health & Safety Code §34179.5
146. Health & Safety Code §34191.4(b)
147. Health & Safety Code §34180(b)
148. Health & Safety Code §34180(c)
149. Health & Safety Code §34176(g) and §34194(c)
150. Health & Safety Code §34176(g)
151. Health & Safety Code §34194(c)
152. Health & Safety Code §34177.5(a)(1)

END NOTES

153. Health & Safety Code §34177.5(a)(2)
154. Health & Safety Code §34177.5(a)(3)
155. Health & Safety Code §34177.5(a)(4)
156. Health & Safety Code §34177.5(h)
157. Health & Safety Code §34177(i)
158. Health & Safety Code §34179(c)

COUNTY OF LOS ANGELES

CHIEF EXECUTIVE OFFICE

