



City of La Quinta

CITY / SA/ HA/ FA MEETING DATE: January 21, 2014

AGENDA CATEGORY:

ITEM TITLE: AUTHORIZE AN APPLICATION PURSUANT TO HEALTH & SAFETY CODE SECTION 34191.4() TO THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO THE LA QUINTA REDEVELOPMENT AGENCY TO APPROVE THE PRIOR CITY-REDEVELOPMENT AGENCY LOANS

BUSINESS SESSION:

CONSENT CALENDAR: 12

STUDY SESSION:

PUBLIC HEARING:

RECOMMENDED ACTION:

Authorize the submission of an application pursuant to Health & Safety Code Section 34191.4(b) to the Oversight Board of the Successor Agency to the La Quinta Redevelopment Agency to approve the prior City-Redevelopment Agency loans.

EXECUTIVE SUMMARY:

- As of February of 2011, the City had made loan advances to the former La Quinta Redevelopment Agency in the amount of \$41,378,966.
- The Agency repaid the City loans in full the same month.
- Pursuant to the Due Diligence Review completed by the Department of Finance, the City paid the loan repayment proceeds in the amount of \$41,378,966 to the County Auditor Controller, who then distributed the payment to the taxing agencies within the project areas of the former Agency.
- The Successor Agency had received its Finding of Completion, indicating that it is in full compliance with the Due Diligence Review audit.
- AB 1484 permits the Successor Agency to apply to have the City/Agency loans approved by the Oversight Board and their repayment made through the Recognized Obligation Payment Schedule process.

FISCAL IMPACT:

If approved by the Oversight Board and the Department of Finance, the outstanding loans will be repaid at the Local Agency Investment Fund interest rate as funds are available, in accordance with the maximum schedule provided for in AB 1484. The estimated repayment schedule anticipates that the loans will be repaid by 2030. Twenty percent of the payments received by the City must be used for affordable housing.

BACKGROUND/ANALYSIS:

Please see the attached staff report (Attachment 1) for tomorrow's Oversight Board meeting.

ALTERNATIVES:

No alternatives are recommended.

Report prepared by: M. Katherine Jenson, City Attorney

Report approved for submission by: Frank J. Spevacek, City Manager

Attachment: 1. Oversight Board staff report



City of La Quinta

OVERSIGHT BOARD MEETING DATE: January 22, 2014

AGENDA CATEGORY:

ITEM TITLE: A RESOLUTION FINDING THAT EACH LOAN ENTERED INTO BETWEEN THE CITY OF LA QUINTA AND THE FORMER LA QUINTA REDEVELOPMENT AGENCY WAS FOR A LEGITIMATE REDEVELOPMENT PURPOSE AND THAT SUCH LOANS ARE ENFORCEABLE OBLIGATIONS

BUSINESS SESSION:

CONSENT CALENDAR:

STUDY SESSION:

PUBLIC HEARING:

RECOMMENDED ACTION:

Adopt the following resolution:

"A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY TO LA QUINTA REDEVELOPMENT AGENCY FINDING THAT EACH LOAN ENTERED INTO BETWEEN THE CITY OF LA QUINTA AND THE FORMER LA QUINTA REDEVELOPMENT AGENCY WAS FOR A LEGITIMATE REDEVELOPMENT PURPOSE AND THAT SUCH LOANS ARE ENFORCEABLE OBLIGATIONS."

FISCAL IMPACT:

This action would allow the City to be repaid \$41.3 million of loans the City made to the former redevelopment agency ("RDA"). Of this amount, 20 percent or \$8.26 million would be pledged to preserve and improve the community's supply of affordable housing. The City would also be eligible to earn \$2,065,867 of interest income on the unpaid principal. The interest rate would be fixed for the term of the loan at the Local Agency Investment Fund (LAIF) earnings interest rate as of the date of the Oversight Board action. The current LAIF rate is 0.26%.

The chart below presents the projected distribution of property tax revenue in order to accommodate the General Fund loan repayment; this distribution formula is dictated by State Law.

	Future Value	Net Present Value (NPV)
Gross Property Tax Revenue	\$ 1,139,655,000	\$ 1,114,856,317
Taxing Agency Pass Through	\$ 624,257,000	\$ 610,620,110
Former RDA Debt Payments	\$ 282,398,170	\$ 276,524,577
Other Taxing Agency Payments	\$ 45,791,152	\$ 44,618,344
General Fund Loan Payments	\$ 45,791,152	\$ 44,618,344
NPV Discount Rate - LAIF rate	0.264%	

The information presented in this chart is as follows:

- The total future value and the net present value (discounted) of the 28 years of payments.
- The revenue that taxing agencies would receive pursuant to former redevelopment agency (RDA) pass through agreements.
- Revenue needed to retire former RDA bond debt obligations.
- Remaining revenue that would be paid to taxing agencies.
- Revenue used to fund the General Fund Loan payments.

BACKGROUND/ANALYSIS:

After the Department of Finance (DOF) has issued a Finding of Completion to a successor agency, in accordance with Health and Safety Code section 34191.4(b) (which was added by AB 1484), loan agreements between the former redevelopment agency and sponsoring entity (in this case, the City of La Quinta, or "City") may be placed on the Successor Agency's Recognized Obligation Payment Schedule (the "ROPS"). To do so, the Oversight Board must find that the loans were made for legitimate redevelopment purposes. On November 6, 2013, the Successor Agency to La Quinta Redevelopment Agency ("Successor Agency") was issued its Finding of Completion (Exhibit A). DOF issued the Finding of Completion because on October 29, 2013, the City transferred \$41,378,966 from its General Fund reserves to the County, who then distributed this money to all taxing agencies; the allocation of this money to the taxing agencies was determined by their respective share of the 1% property tax allocation.

The total amount of principal owed as of March 2011, when all the loan advances from the City were repaid by the former RDA, was \$41,378,966, comprised of: (a) \$6,000,000 For Project Area 1, resulting from the 2006 loan restructuring with the loan advances repayable at 10% interest, \$6,000,000 resulting from the 2006 loan

restructuring with the loan advances repayable at 7% interest, and \$10,000,000 for the Supplemental Educational Revenue Augmentation Fund ("SERAF") payment; and (b) \$10,000,000 For Project Area 2, resulting from the 2006 loan restructuring (all loan advances were at 10 percent interest), and \$9,378,966 for the December 4, 2007 Financing Agreement for the purchase of the approximately 9.89 acres of the Coral Mountain Property, as charted below:

Project Area 1		Project Area 2	
2006 loan restructuring with loan advances repayable at 10% interest	\$6,000,000	2006 loan restructuring with loan advances repayable at 10% interest	\$10,000,000
2006 loan restructuring with loan advances repayable at 7% interest	\$6,000,000	December 4, 2007 Financing Agreement for the purchase of the approximately 9.89 acres of the Coral Mountain Property	\$9,378,966
SERAF payment	\$10,000,000		
Project Area 1 Total	\$22,000,000	Project Area 2 Total	\$19,378,966

TOTAL \$41,378,966

In December 2013, the State Controller’s Office provided its final Review Report of the La Quinta Redevelopment Agency, Asset Transfer Review, addressing all asset transfers made by the former RDA between January 1, 2011 through January 31, 2012 (the "SCO Report"). The SCO Report orders the City to transfer to the Successor Agency the amount of \$41,431,179. The difference between the amount repaid pursuant to the DOF and the amount ordered to be transferred pursuant to the SCO Report, which is \$52,213 accounts for payments of interest disallowed by the SCO. That amount has been paid to the Successor Agency, and is proposed to be added to the outstanding debt in the attached resolution.

The Oversight Board is now being requested to make a finding that each of the loans were for "legitimate redevelopment purposes." Once that finding is made, the obligation to repay these loans can be listed on the ROPS.

The following outlines the history of the advances from the City to the Agency that comprised the \$41,378,966 loan that was repaid in February 2011.

A. 1983 Loan/Cooperation Agreement and Overview of Advances

On August 16, 1983, the City Council and RDA Board of Directors approved, and the City and RDA entered into, a Cooperation Agreement (the "Loan/Cooperation Agreement"). The RDA and the City implemented the 1983 Loan/Cooperation Agreement as a line of credit, whereby the RDA committed tax increment funds to repay all future City advances to the RDA that the RDA then used in furtherance of the redevelopment activities in Project Area 1 and Project Area 2 (collectively, the

Project Areas"), pursuant to the Community Redevelopment Law (Health and Safety Code section 33000 et. seq.) (the "CRL"). Pursuant to the 1983 Loan/Cooperation Agreement, the City provided to the RDA a series of advances dating through December 1, 2009 ("Loan Advances"). The Loan Advances were documented by way of individual promissory notes, financing agreements, and other supplemental documentation ("Loan Advance Documents"). The Loan Advances and Loan Advance Documents were maintained in the City's and RDA's records, and generally fall into three categories: The "Pre-2006 Loan Advance Documents," the "2006 Loan Restructuring," and the "Post-2006 Loan Advance Documents."

B. The Pre-2006 Loan Advances

On July 19, 1994, the City and RDA approved a Loan Advance to fund the Project Area 1 Capital Projects Fund for publicly owned improvements by a June 30, 1994 promissory note in a principal amount of \$2,200,000, with 10% interest. The City extended the term of repayment, and after an interest "pay down" in 1998, the balance of the principal and interest on this Loan Advance was part of the 2006 Loan Restructuring (discussed below). These improvements included drainage, street and utility improvements located in the Cove and Village. These improvements were developed in-conjunction with the greater Cove drainage improvements that were installed by the Coachella Valley Water District (CVWD).

On July 19, 1994, the City and RDA approved a Loan Advance to fund the Project Area 2 publicly owned improvements. This was documented by a June 30, 1994 promissory note in a principal amount of \$4,321,796, with 10% interest. The City extended the term of repayment, and after a principal "pay down" in the amount of \$849,607 in Fiscal Year 1993/94, and an interest "pay down" in Fiscal Year 1998/99 of \$1,000,000 (which covered part of the interest on this loan advancement), the balance of the principal and interest on this Loan Advance was part of the 2006 Loan Restructuring. These improvements entailed drainage, signal and roadway improvements to Highway 111, Avenue 48 and Dune Palms Road. The Avenue 48 and Dune Palms Road improvements were needed in part, to accommodate the development of the Administrative Center for the Desert Sands Unified School District (DSUSD).

On March 7, 2000, the City and RDA approved a Loan Advance to fund the acquisition of real property to be used for a publicly owned historical museum in Project Area 1, in an amount not to exceed \$115,000, with 10% interest. The City ultimately advanced only \$107,273 under this loan advancement, and the balance of the principal and interest on this Loan Advance was part of the 2006 Loan Restructuring.

On June 20, 2000, the City and RDA approved a Loan Advance to fund Project Area 2 publicly owned improvements (specifically, including curb, gutter, street,

and storm drain improvements on Highway 111, Adams Street and Washington Street) by resolutions and a promissory note in a principal amount of \$1,500,000, with 10% interest. The balance of the principal and interest on this Loan Advance was part of the 2006 Loan Restructuring.

On August 6, 2002, the City and RDA approved a Loan Advance to fund Project Area 2 publicly owned improvements (specifically, the La Quinta Community Park) by resolutions and a promissory note in a principal amount of \$1,100,000, with 10% interest. The principal and accumulated interest on this Loan Advance was paid down at the time of the 2006 Loan Restructuring.

On April 1, 2003, the City and RDA approved a Loan Advance to fund Project Area 1 publicly owned improvements (specifically, a public library, La Fonda street improvements, and design of Eisenhower street/median improvements, all per Project Area 1 capital improvement projects) by resolutions and a promissory note in a principal amount of \$6,000,000, with 7% interest. Interest was paid down in 2003, 2004, and 2005, and then-accumulated interest was paid off with the 2006 Loan Restructuring.

C. 2006 Loan Restructuring

On March 7, 2006, the City and RDA approved the 2006 Loan Restructuring, which consisted of a full restructuring of all amounts, principal and interest, remaining to be paid under the pre-2006 Loan Advances (the "2006 Loan Restructuring"). The restructuring was proposed to ensure that the City would be repaid all principal and interest within the time limit the RDA had to receive tax increment for the Redevelopment Plan for Project Area 1 (the "Project Area 1 Plan") (Fiscal Year 2033/34) and the Redevelopment Plan for Project Area 2 (the "Project Area 2 Plan") (Fiscal Year 2038/39), respectively. The 2006 Loan Restructuring established a revised repayment schedule and carried over other relevant loan terms from the pre-2006 Loan Advances.

In summary, the 2006 Loan Restructuring did the following:

a. At the time of the restructuring, on April 1, 2006, the City received from the RDA a total repayment of \$5,691,347, consisting of \$2,982,763 from Project Area 1 Loan Advances and \$2,708,584, from Project Area 2 Loan Advances.

b. For the Project Area 1 Loan Advances that had 10% interest, after the restructuring the total outstanding amount owed was \$6,000,000. At 10% interest, annual interest payments of \$600,000 would be paid by the RDA to City, with four balloon payments of \$1,500,000, each in the last four fiscal years (Fiscal Years 2030/31 to 2033/34) to be paid by the RDA to City to pay off the remaining principal.

c. For the Project Area 1 Loan Advances that had 7% interest, after the restructuring the total outstanding amount owed was \$6,000,000. At 7% interest, annual interest payments of \$420,000 would be paid by the RDA to City, with four balloon payments of \$1,500,000, each in the last four fiscal years (Fiscal Years 2030/31 to 2033/34) to be paid by the RDA to City to pay off the remaining principal.

d. For the Project Area 2 Loan Advances, all of which had 10% interest, after the restructuring the total outstanding amount owed was \$10,000,000. At 10% interest, annual interest payments of \$1,000,000 would be paid by the RDA to City, with four balloon payments of \$2,500,000, each in the last four fiscal years (Fiscal Years 2035/36 to 2038/39) to be paid by the RDA to City to pay off the remaining principal.

Following the 2006 Loan Restructuring, the RDA made regular interest payments on these Loan Advances and fully repaid the principal at the time of full repayment in 2011.

D. Post-2006 Loan Advances

After the 2006 Loan Restructuring, the City made two additional Loan Advances.

The Post-2006 Loan Advance Documents, and purposes of those Loan Advances, were as follows:

a. On December 4, 2007, the City and RDA approved a Loan Advance to fund the acquisition of real property in Project Area 2 (specifically, approximately 9.89 acres to be used for commercial uses as part of an adjacent affordable housing project that is currently under construction, known as the "Coral Mountain Property") by resolutions and a financing agreement in a principal amount of \$9,378,966, with 7% interest, maturing over an 11-year period, with no prepayment penalty. The RDA made regular interest payments since the creation of this Loan Advance and fully repaid the principal at the time of full repayment in 2011.

b. On December 1, 2009, the City and RDA approved a Loan Advance to fund the RDA's obligation, imposed by the State under Health and Safety Code sections 33690 and 33690.5, to make the SERAF payment. The RDA's funding obligation under these statutes required a remittance payment, made to offset the State's budget shortfall, of \$23,560,481 for Fiscal Year 2009/10, and \$4,850,687 for Fiscal Year 2010/11, respectively. The City agreed to provide the Loan Advance because the RDA's funds were committed to various projects and the RDA had the authority to make the State-mandated payment obligation from any funds legally available to the RDA, including those funds borrowed from the City's General Fund. (Health & Safety. Code §§ 33690(b), 33690.5(b).) The City

advanced \$10,000,000 to the RDA to pay for a portion of the SERAF payment via a Financing Agreement and resolutions approving the same, with no prepayment penalty. The \$10,000,000 principal amount was documented as a liability of Project Area 1 at the time of full repayment in 2011. While it had the right to do so, the RDA elected not to borrow funds for this payment from its Low and Moderate Income Housing Fund because it desired to complete several critically important affordable housing projects.

ANALYSIS:

As described above, the Oversight Board is being requested to make a finding that the five loans between the City and former RDA were for legitimate redevelopment purposes. For purposes of making said finding, the term “redevelopment” is defined in Health and Safety Code Section 33020 as the “planning, development, re-planning, redesign, clearance, reconstruction, or rehabilitation, or any combination of these, of all or part of a survey area, and the provision of those residential, commercial, industrial, public, or other structures or spaces as may be appropriate or necessary in the interest of the general welfare, including recreational and other facilities incidental or appurtenant to them ...”. Staff believes that because all of the Loan Advances were expressly made for “redevelopment purposes,” as defined by statute, this finding is appropriate.

CONCLUSION:

The subject loans were all made to further the goals and mission of the La Quinta Redevelopment Agency, and staff recommends the Oversight Board approve the proposed resolution, finding that each of the five loans were for legitimate redevelopment purposes, and are enforceable obligations.

Respectfully submitted,

Frank J. Spevacek, Executive Director

Attachment: DOF’s Finding of Completion Letter (November 6, 2013)



EDMUND G. BROWN JR. ■ GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 6, 2013

Ms. Robbeyn Bird, CPA, Finance Director
City of La Quinta
P.O. Box 1504
La Quinta, CA 92247-1504

Dear Ms. Bird:

Subject: Request for a Finding of Completion

The California Department of Finance (Finance) has completed the Finding of Completion for the City of La Quinta Successor Agency.

Finance has completed its review of your request, which may have included reviewing supporting documentation submitted to substantiate payment or obtaining confirmation from the county auditor-controller. Pursuant to Health and Safety Code (HSC) section 34179.7, we are pleased to inform you that Finance concurs that the Agency has made full payment of the amounts determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5.

This letter serves as notification that a Finding of Completion has been granted. The Agency may now do the following:

- Place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). Loan repayments will be governed by criteria in HSC section 34191.4 (a) (2).
- Utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants per HSC section 34191.4 (c).

Additionally, the Agency is required to submit a Long-Range Property Management Plan to Finance for review and approval, per HSC section 34191.5 (b), within six months from the date of this letter.

Please direct inquiries to Andrea Scharffer, Staff Finance Budget Analyst, or Chris Hill, Principal Program Budget Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Mr. Frank Spevacek, Executive Director, City of La Quinta
Ms. Pam Elias, Chief Accountant, Property Tax Division, County of Riverside
Auditor-Controller
California State Controller's Office

