

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 29, 2014

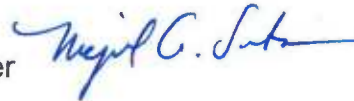
CAO File No. 0220-00013-2390

Council File No.

Council District: 14

To: The Council
The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Community Redevelopment Agency/Los Angeles, A Designated Local Authority

Subject: **CRA/LA'S REQUEST FOR THE CONTINUED SUBORDINATION OF PASS-THROUGH PAYMENTS (ASSEMBLY BILL 1290 FUNDS) FOR THE BUNKER HILL PROJECT TAX ALLOCATION BONDS AS PART OF CRA/LA'S PARTICIPATION IN THE COUNTY'S REFUNDING BOND PROGRAM**

SUMMARY

The City Administrative Officer (CAO) requests Council approval of a subordination request from the Community Redevelopment Agency/Los Angeles (CRA/LA), A Designated Local Authority and Successor Agency to the former Community Redevelopment Agency (Agency), with respect to the refunding of previously issued Tax Allocation Bonds (Bond) for the former Bunker Hill Redevelopment Project Area (RPA). On August 12, 2014, the CAO received a letter from the CRA/LA dated August 8, 2014 (Attachment I) requesting that the City of Los Angeles (City) subordinate its statutorily mandated pass-through payments of tax increment (TI) funds (i.e. Assembly Bill [AB] 1290 or Pass-Through Payments) pursuant to California Health and Safety Code Section (Section) 33607.5 in order for the CRA/LA to achieve potential debt service savings through the CRA/LA's participation in the County of Los Angeles (County) Redevelopment Bond Refunding Program (Program). The City must either approve or disapprove the CRA/LA's requests to subordinate within 45 days after the receipt of the request. If the City fails to act on this matter within the 45-day period, the subordination request will be deemed approved.

It is important to note that the City Clerk's statutory interpretation, as stated in the attached letter dated November 15, 2013 (Attachment II), considers the 45-day time limit for a response to commence when the request is received by the agency officially responsible for accepting documents on behalf of the Los Angeles City Council (the Taxing Entity) and not on the date the request is received by the CAO. Therefore the City's response must be received within 45 days of this report's transmittal for City Council consideration.

Under the provisions of Section 34177.5(c), the Successor Agency must provide the affected taxing entities (ATE) such as the City, County, School District, Community College District and others with substantial evidence that sufficient funds will be available to pay both the debt service

on the Successor Agency's Bonds and all of the tax sharing payments required by Section 34183(a)(1). The tax sharing payments required by Section 34183(a)(1) include, without limitation, any and all tax sharing agreements with ATEs, statutory tax sharing payments to all ATEs, and inflation factor payments to school districts, to the extent applicable. The City may only disapprove the subordination request if it finds based upon substantial evidence that the CRA/LA will not be able to pay the debt service payments and the amount to be paid to the ATEs.

This Office recommends that the Council approve the CRA/LA's subordination request. Based upon the Successor Agency's projections of TI revenue and Pass-Through coverage (Exhibit A of the Attachment I) this Office has determined that sufficient funds do exist to pay both the debt service on the Successor Agency's Bonds and all of the tax sharing payments required by Section 34183(a)(1).

Former Agency's Bond Program

In the past, the Council approved the former Agency's request to issue and sell Bonds or Notes in order to finance and/or refinance the costs of redevelopment activities in its RPAs. All debt payments of the former Agency's borrowings are paid with TI revenues from the respective RPAs. Provisions were included in the former Agency's Bond Resolutions (adopted by the former Agency Board and Council) that the City's share of the Pass-Through Payments would be subordinated to the debt service payments to pay principal and interest on the Bonds. This was standard language in the former Agency's Bond Resolutions to ensure that principal and interest payments are primary to other payments. In 2007, the City subordinated these statutorily mandated pass-through payments to the Former RDA's Grand Central Square Multifamily Housing Revenue Refunding Bonds, 2007 Series A (C.F. 07-0199)

County of Los Angeles Redevelopment Bond Refunding Program

The City Council and Mayor on December 10 and 16, 2014, respectively, previously approved subordination requests of pass-through payments at the request of the former Agency for bonds associated with former Hollywood, Mid-City and Adelante Eastside RPAs for participation in the County of Los Angeles Bond Refunding Program (C.F. 13-1529).

On July 8 and 30, 2014, the CRA/LA's Governing Board and Oversight Board, respectively, approved the refunding of the City of Los Angeles Bunker Hill Project Tax Allocation Refunding Bonds, Series H and the Bunker Hill Subordinate Lien Tax Allocation Bonds, Series 2004L. On August 12, 2014, the CAO received the subordination request for the Bunker Hill RPA and these Bonds. The County is structuring the proposed refunding Bonds to match the same lien priority structure of the original Bond agreements for purposes of credit evaluation and ratings on the proposed refunding Bonds. This is done in order to maintain consistency with the original Bond documents.

The requested subordination would facilitate the issuance of refunding Bonds so potential substantial debt service savings can be achieved in the Bond issuances discussed above. This Program was established under AB1484 to assist successor agencies in refunding Bonds or

other indebtedness and provide debt service savings, efficiencies in issuance, and costs of issuance savings to successor agencies. Pursuant to Section 34177.5(c), the CRA/LA requests that Pass-Through Payments required to be made to the City for the Bunker Hill RPA be subordinated to the debt service payments on the proposed refunding Bonds. As a result, if there is a shortage of future TI revenue in any six-month calendar period (ending June 30 or December 31) the refunding Bonds would be paid prior to the Pass-Through Payments to the City being made to the extent provided under Section 34183. It should be noted that historically this call on the Pass-Through Payments for the City has not happened and all ATEs are included.

Assembly Bill 1290 Funds

In 1993, the State legislature enacted AB1290 which allocates a portion of all property TI funds generated from RPAs created or amended in certain ways after December 1993 to ATEs in accordance with a statutory formula, generally summarized as follows:

| Tier (Number of Years) | Pass Through⁽¹⁾ |
|-------------------------------|-----------------------------------|
| Tier A (Years 1-10) | 25 percent |
| Tier B (Years 11-30) | 21 percent + Tier A |
| Tier C (Years 31-40) | 14 percent + Tiers A & B |

(1) Section 34183(a)(1) provides that the amount of Pass-Through Payments computed for distribution by the County Auditor Controller to the ATEs will be computed as though the requirement to set aside funds for the Low and Moderate Income Housing Fund were still in effect.

In 2003, a Citywide policy was adopted that all AB1290 TI revenue be retained by the former Agency for use in the RPA or Council District in which it is generated (C.F. 00-0801). In 2010, the California Appellate Court ruled in favor of the Los Angeles Unified School District's (LAUSD) Petition for Writ of Mandate, which was filed in 2007 against the County and the Redevelopment Agencies (RDAs), and also named various taxing entities, including the City, as real parties in interest. The Petition alleges that the County's calculation of LAUSD's proportionate share of AB1290 funds fails to include the amount of payments it receives of Educational Revenue Augmentation Funds (ERAF). The Petition sought to have the County re-calculate LAUSD's proportionate share and apply that new share prospectively and retroactively to 1993 (the year AB1290 payments commenced). In 2010, the California Appellate Court determined that the LAUSD's proportionate share of AB1290 funds going forward with the inclusion of ERAF payments in the County's calculation. In 2010-11, the Office of the County Auditor Controller (CAC) recalculated the statutory formula for property tax distribution to all the ATEs and included ERAF in the calculation which is approximately 25 percent for most RPAs. As a result, the City's share was reduced from 32 percent in 2009-10 to approximately 26 percent for 2010-11 (a decrease of 20 percent).

On June 29, 2011, the State Legislature enacted redevelopment dissolution legislation which eliminated RDAs. In 2011, the Council instructed the former Agency to work with the Office of the Chief Legislative Analyst (CLA) to take all necessary steps to transfer all unencumbered AB1290

funds to the City to administer (C.F. 11-0086). In 2011, a total of \$29.4 million was transferred to the City from the former Agency, which retained only previously encumbered funds. Of that amount, \$21 million was for projects previously approved by former Agency's Board and Council (C.F. Nos. 11-0349 and 11-0763).

Effective February 1, 2012, the former Agency was dissolved pursuant to AB1x-26. The AB1x26 does not modify the calculations relative to the City share of AB1290 funds. Since June 1, 2012, the CAC has been distributing AB1290 funds directly to the City. The CLA has been managing these funds on behalf of the City. To date, the CAC has paid the City a total of \$29.8 million in AB1290 funds. The City will continue to receive AB 1290 funds, but as RPAs begin to expire, future revenues will decline.

This report is in compliance with the City's financial policies.

RECOMMENDATION

That the Council approve attached subordination request (Attachment 1) from the Community Redevelopment Agency/Los Angeles (CRA/LA), A Designated Local Authority and Successor Agency to the former Community Redevelopment Agency (Agency) to subordinate the City of Los Angeles' share of its statutorily mandated pass-through payments (Assembly Bill 1290 funds) in order to facilitate the issuance of refunding the Bunker Hill Redevelopment Project Area Bonds for debt service savings through the CRA/LA's participation in the County of Los Angeles Redevelopment Bond Refunding Program with respect to the former Agency's Bunker Hill Redevelopment Project Area.

FISCAL IMPACT STATEMENT

There is no impact to the City's General Fund. All debt payments of the former Agency's borrowing are paid with Tax Increment revenues from the respective Redevelopment Project Areas. The source of funds identified for the CRA/LA's subordination requests is the City of Los Angeles share of its statutorily mandated pass-through payments (Assembly Bill [AB] 1290 funds). AB1290 funds are considered by the City of Los Angeles as special funds due to the existing Council policy in which all AB1290 funds are retained for use in the Redevelopment Project Area or Council District in which it is generated.

MAS:MG: 02150019c

Attachments:

| | |
|---------------|---|
| Attachment I | CRA/LA subordination request letter for Bunker Hill RPA |
| Attachment II | Office of the City Clerk's letter dated November 15, 2013 |

Attachment I CRA/LA Subordination request Bunker Hill RPA

cc. KJH, BC
(2) (9)
LJS

DUE: 9/3/14



CRA/LA
A DESIGNATED
LOCAL AUTHORITY

DATE /

FILE CODE /

448 S. Hill Street / Suite 1200
Los Angeles / California 90013

T 213 977 1600 / F 213 977 1665
www.crala.org

August 8, 2014

2014 AUG 12 PM 12:10
CITY ADMINISTRATIVE OFFICER

VIA CERTIFIED MAIL

Miguel A. Santana
City Administrative Officer
City of Los Angeles
200 North Main Street, Suite 1500
Los Angeles, CA 90012

Re: Subordination Notification; Request for Subordination of Payments –
Bunker Hill Project

Dear Mr. Santana:

The City Council of the City of Los Angeles previously adopted the Amended Redevelopment Plan and certain amendments thereto (as amended, the "Redevelopment Plan") for the Bunker Hill Urban Renewal Project 1B (the "Project Area"). The adoption of certain amendments to the Redevelopment Plan made your agency eligible for a statutorily mandated pass-through of tax increment pursuant to California Health and Safety Code Section 33607.5 (the "Pass-Through Payments").

Prior to the dissolution of redevelopment agencies pursuant to California Assembly Bill No. 26 (First Extraordinary Session) ("AB X1 26") which was enacted on June 28, 2011, California Health and Safety Code Section 33607.5 provided that a redevelopment agency could request that the payments required to be made to taxing entities pursuant to Section 33607.5 be subordinated to loans, bonds or other indebtedness. At the request of The Community Redevelopment Agency of the City of Los Angeles (the "Former RDA") in 2007, such payments to the City of Los Angeles (the "Taxing Entity") were subordinated to tax increment payments in support of the Former RDA's Grand Central Square Multifamily Housing Revenue Refunding Bonds, 2007 Series A (the "Series 2007A Bonds"). This letter is a similar request for subordination as detailed below.

AB X1 26 further designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and to administer dissolution and wind down of the former redevelopment agencies. California Assembly Bill No. 1484 ("AB 1484"),

a follow on bill to AB X1 26, was enacted on June 27, 2012 and provides a mechanism to refund outstanding bonds or other indebtedness under certain circumstances.

California Health and Safety Code Section 34177.5(c) (enacted as part of AB 1484) provides that a successor agency may subordinate to the bonds or other indebtedness the amount required to be paid to an affected taxing entity pursuant to paragraph (1) of subdivision (a) of Section 34183, provided that the affected taxing entity has approved the subordinations pursuant to Section 34177.5(c). Under the provisions of Section 34177.5(c), a request to subordinate must be accompanied by substantial evidence that sufficient funds will be available to pay both the debt service on the bonds or other indebtedness and the payments required by paragraph (1) of subdivision (a) of Section 34183, when due. Within 45 days after receipt of the successor agency's request, the affected taxing entity must either approve or disapprove the request for subordination. If the affected taxing entity fails to do either within 45 days after receipt of the successor agency's request, the request shall be deemed approved and shall be final and conclusive. An affected taxing entity may disapprove a request for subordination only if it finds, based upon substantial evidence, that the successor agency will not be able to pay the debt payments on the proposed loans, bonds or other indebtedness and to pay the statutory pass-through payment required to be paid to the affected taxing entity.

California Health and Safety Code Section 34177.5(a) (also enacted as part of AB 1484) authorizes successor agencies to refund outstanding bonds or other indebtedness to be refunded provided that (i) the total interest cost to maturity on the refunding bonds or other indebtedness plus the principal amount of the refunding bonds or other indebtedness shall not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded, and (ii) the principal amount of the refunding bonds or other indebtedness shall 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.

The CRA/LA, a Designated Local Authority (the "Successor Agency") has determined that there are potential debt service savings that can be achieved through a refinancing of the (1) Former RDA's Bunker Hill Project Tax Allocation Refunding Bonds, Series H (the "Series H Bonds"), (2) the related Community Redevelopment Financing Authority of The Community Redevelopment Agency of the City of Los Angeles, California Bunker Hill Project Revenue Bonds, Series 2004A and Series 2004B (Federally Taxable) (together, the "Series 2004 Authority Bonds") and (3) the Former RDA's Bunker Hill Project Subordinate Lien Tax Allocation Bonds, Series 2004L (the "Series L Bonds" and, together with the Series H Bonds and the Series 2004 Authority Bonds, the "Refunded Bonds"). The Successor Agency is working with the County of Los Angeles (the "County") and has elected to pursue a refunding transaction through participation in the County's redevelopment bond refunding program (the "Refunding Program"). The Refunding Program has been established to

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assist successor agencies within the County to refund bonds or other indebtedness pursuant to AB 1484 in order to provide debt service savings inuring to the benefit of affected taxing entities, efficiencies in issuance and cost of issuance savings. The County is a taxing entity recipient of property tax revenues attributable to the Project Area and represented by voting membership on the Successor Agency's Oversight Board. All agencies with taxing jurisdiction over the Project Area, including the Taxing Entity, should benefit from the proposed refunding and reduction of debt service costs and the corresponding increase in property tax revenues available for distributions.

The Successor Agency is hereby requesting that the Taxing Entity subordinate its statutory Pass-Through Payments to payments on a proposed Successor Agency tax allocation refunding bond issue, which is expected to include a federally tax-exempt series (the "Series M Bonds") and also include a federally taxable series (the "Series N Bonds"), each to be secured by property tax revenues attributable to the Project Area. The Series M Bonds and Series N Bonds will be issued as part of the Refunding Program only with the approval of the Successor Agency's Oversight Board and the California Department of Finance. The Series M Bonds and Series N Bonds are being issued to refund outstanding indebtedness of the Former RDA in accordance with California Health and Safety Code Section 34177.5(a). As referenced above, in 2007, the Taxing Entity agreed to similar requests for subordination of the Pass-Through Payments in support of the Former RDA's Grand Central Square Multifamily Housing Revenue Refunding Bonds, 2007 Series A. Upon issuance of the Series M Bonds and the Series N Bonds, the Series 2007A Bonds, Series M Bonds and Series N Bonds, will be the only Successor Agency indebtedness to which the Pass-Through Payments for the Project Area would then be subordinate. If issued, debt service payments on the Series M Bonds and Series N Bonds will be subordinate to debt service payments on the Series 2007A Bonds.

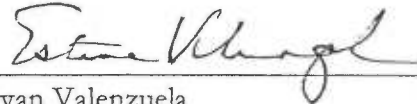
To support the Successor Agency's request for subordination, I am enclosing a document entitled "Exhibit A – Projection of Tax Increment Revenue & Pass-Through Coverage." This document, which was prepared by Keyser Marston Associates, Inc. an independent fiscal consultant, demonstrates that, with the bond financing currently proposed, tax increment revenues will be sufficient to meet the Successor Agency's Pass-Through Payment obligation to the Taxing Entity, as well as debt service on the Series 2007A Bonds, Series M Bonds and Series N Bonds, respectively. This document makes certain conservative assumptions with respect to the Project Area to demonstrate the sufficiency of the tax increment revenues including (1) actual assessed values within the Project Area for Fiscal Year 2013-14, as reported by the Los Angeles County Auditor-Controller; (2) an assumed assessment appeal tax refund in estimated Fiscal Year 2014-15 tax revenues and an assumed valuation reduction to projected assessed values commencing in Fiscal Year 2014-15, both based on a weighted average valuation reduction derived from successful appeals identified in the Project Area between Fiscal Years 2009-10 and 2013-14, as determined by the Fiscal Consultant; (3) a 0.454% increase in Real Property assessed values in Fiscal Year 2014-15 and a 2% annual increase in Real Property assessed values commencing in Fiscal Year 2015-16; and (4) the exclusion of future

City of Los Angeles
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assessed values that could be generated from new developments or property sales occurring in the Project Area. In accordance with California Health and Safety Code Section 34177.5(c), this document provides substantial evidence that the Successor Agency will have sufficient tax increment revenues available to pay the debt service on its outstanding and proposed bonds concerning the Project Area and to make its statutory Pass-Through Payments to each taxing entity. As indicated above, you do not need to respond to this letter in order to evidence your approval.

If you need any additional information or if you have any questions, please feel free to call me at (213) 977-1823, Doug Baron, Director of Public Finance, County Treasurer/Tax Collector's Office at (213) 974-8359 or Ralph Holmes of Stifel, Nicolaus & Company, Incorporated at (415) 364-5965. I appreciate your consideration of this request.

Sincerely,



Estevan Valenzuela
Chief Executive Officer

cc: Greg SooHoo, Keyser Marston Associates, Inc.
Doug Baron, County of Los Angeles
Ralph Holmes, Stifel, Nicolaus & Company, Incorporated
Kevin Hale, Orrick, Herrington & Sutcliffe LLP

CRA/LA - A Designated Local Authority

Bunker Hill Project Area

Exhibit A - Projection of Tax Increment Revenue & Pass-Through Coverage

(000's Omitted)

| Fiscal Year | Tax Revenues | Series 2007A Debt Service | Estimated Series M Debt Service | Estimated Series N Debt Service | Revenue After Debt Service | Pass-through Payments | Pass-through Coverage |
|---------------|----------------|---------------------------|---------------------------------|---------------------------------|----------------------------|-----------------------|-----------------------|
| 2014-15 | \$ 36,832 | \$ (976) | \$ (11,670) | \$ (8,261) | \$ 15,924 | \$ 2,753 | \$ 13,171 |
| 2015-16 | 37,850 | (971) | (11,667) | (8,260) | 16,951 | 2,883 | 14,068 |
| 2016-17 | 38,509 | (976) | (11,657) | (8,267) | 17,608 | 3,014 | 14,594 |
| 2017-18 | 39,181 | (974) | (20,264) | - | 17,944 | 3,147 | 14,797 |
| 2018-19 | 39,867 | (970) | (18,965) | - | 19,932 | 3,283 | 16,649 |
| 2019-20 | 40,567 | (974) | (18,963) | - | 20,629 | 3,423 | 17,206 |
| 2020-21 | 41,280 | (972) | (18,963) | - | 21,346 | 3,565 | 17,781 |
| 2021-22 | 42,008 | (976) | (18,967) | - | 22,065 | 3,710 | 18,355 |
| 2022-23 | 42,750 | (972) | (18,964) | - | 22,814 | 3,858 | 18,956 |
| 2023-24 | 43,507 | (972) | (18,963) | - | 23,572 | 4,008 | 19,564 |
| 2024-25 | 44,280 | (970) | (18,967) | - | 24,342 | 4,162 | 20,180 |
| 2025-26 | 45,068 | (971) | (18,959) | - | 25,137 | 4,319 | 20,818 |
| 2026-27 | 45,871 | - | (20,683) | - | 25,188 | 4,479 | 20,709 |
| 2027-28 | 46,691 | - | (20,685) | - | 26,006 | 4,642 | 21,364 |
| TOTALS | 584,260 | (11,674) | (248,338) | (24,789) | 299,458 | 51,246 | 248,212 |

Source: Keyser Marston Associates (Fiscal Consultant) as to Tax Revenues and Pass-Through Payments; KNN as to debt service.

Note: In connection with AB 1290's requirement for the imposition of plan limits, Health and Safety Code Section 3333.6(g)(3) provides that Section 33333.6 does not affect the right of an agency to receive property taxes to pay refunding bonds issued to refinance, refund or restructure indebtedness authorized prior to January 1, 1994, if, as in the case shown above, the last maturity date of the refunding bonds is not later than the last maturity date of the refunded indebtedness and the sum of the total net interest cost to maturity on the refunding bonds plus the principal amount of the refunding bonds is less than the sum of the total net interest cost to maturity on the refunded indebtedness plus the principal amount of the refunded indebtedness. It is unclear whether taxing entities would receive statutory pass-through payments pursuant to Health and Safety Code Section 33607.5 after the last date to repay such indebtedness is reached; however, for the purposes of this table, it is anticipated that there would be substantial coverage and tax revenues sufficient to make those pass-through payments on a timely basis should they be required to be made.

Attachment II City Clerk CRA/LA Subordination Request Letter

CITY OF LOS ANGELES

CALIFORNIA

HOLLY L. WOLCOTT
Interim City Clerk



ERIC GARCETTI
MAYOR

Office of the
CITY CLERK

Council and Public Services
Room 395, City Hall
Los Angeles, CA 90012
General Information - (213) 978-1133
Fax: (213) 978-1040

SHANNON HOPPES
Council and Public Services
Division

www.cityclerk.lacity.org

When making inquiries relative to
this matter, please refer to the
Council File No. 13-1529

November 15, 2013

Mr. Steve Valenzuela, CEO/CFO
Community Redevelopment Agency of Los Angeles,
A Designated Local Authority (CRA/LA-DLA)
448 S. Hill Street, Suite 1200
Los Angeles, CA 90013

**SUBJECT: RECEIPT OF SUBORDINATION NOTIFICATION; REQUESTS FOR
SUBORDINATION OF PAYMENTS FOR THE ADELANTE EASTSIDE,
HOLLYWOOD, AND MID-CITY RECOVERY REDEVELOPMENT AREAS**

Dear Mr. Valenzuela:

The City Clerk of the City of Los Angeles is the agency officially responsible for accepting documents on behalf of the Los Angeles City Council, pursuant to Los Angeles Charter Section 281, and received on November 14, 2013, a report from the Los Angeles City Administrative Officer transmitting requests from the CRA/LA-DLA dated October 9, 2013, relative to subordination notification and requests for subordination of payments for the Adelante Eastside, Hollywood, and Mid-City Recovery Redevelopment Areas. This matter has been assigned Council file No. 13-1529.

Pursuant to California Health and Safety Code Section 34177.5(c), the City Clerk is accepting the transmittal of the subordination requests from the CRA/LA-DLA ("Successor Agency") on behalf of the Los Angeles City Council ("Taxing Entity") and considers the 45-day time limit to begin effective November 14, 2013, and ending on December 29, 2013, with the last day for Council action as December 18, 2013.

This matter has been scheduled for consideration by the City Council's Economic Development Committee for November 19, 2013 and it is anticipated that it will be scheduled for full Council consideration prior to November 27, 2013.

If you have any questions or require any additional information, please contact me by telephone at (213) 978-1071 or by e-mail at richard.williams@lacity.org. Thank you.

Sincerely,



RICHARD E. WILLIAMS
Legislative Assistant
Economic Development Committee