

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

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Assignment No. 13-10-0931
0220-04698-0025

Date: August 22, 2014

To: Honorable Members of the Economic Development Committee

From: Miguel A. Santana, City Administrative Officer 
Gerry F. Miller, Chief Legislative Analyst 

Subject: BOND EXPENDITURE AGREEMENT AND RELATED BOND SPENDING
PLAN BETWEEN CRA/LA AND CITY OF LOS ANGELES

SUMMARY

On February 1, 2012, the former Community Redevelopment Agency of the City of Los Angeles ("CRA") was dissolved pursuant to the California State Legislature and Governor enacting Assembly Bill X1-26 ("ABX1-26"), the Redevelopment Dissolution Act ("Dissolution Act"). On February 3, 2012, CRA/LA, a Designated Local Authority ("CRA/LA") was established to serve as the successor agency of the former CRA and charged with winding down the affairs of the former CRA. On June 27, 2012, the State legislature passed Assembly Bill 1484 ("AB1484") as a budget trailer bill that clarified and amended certain portions of ABX1-26. One of the benefits of AB1484 is that it allows eligible successor agencies that have received a "finding of completion" to use unobligated pre-2011 tax allocation bond proceeds ("Excess Bond Proceeds") for new obligations, as long as the funds are used in a manner consistent with the original bond covenants.

Although CRA/LA is eligible under dissolution legislation to expend such bond proceeds, it does not have the capacity or the resources to expend approximately \$89.8 million in Excess Bond Proceeds that they currently hold and as further detailed in the attached summary (Attachment A). This report requests that the City of Los Angeles ("City") approve a Bond Expenditure Agreement (Attachment B) by and between the CRA/LA and City that would allow for the transfer of approximately \$86.4 million in Excess Bond Proceeds from the CRA/LA to the City to expend on bond-eligible purposes that are of maximum benefit to the City and the Affected Taxing Entities including the County, School District, and Community College District. The CRA/LA would retain approximately \$3.4 million in Excess Bond Proceeds to cover the cost of administering the tax exempt bond issuance. The report further requests adoption of a

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that outlines the broad categories, projects, and activities for which the City would use the Excess Bond Proceeds from each redevelopment project area.

Our offices recommend that the Mayor and Council establish a new or existing bond oversight committee such as the Municipal Facilities Committee or LA for Kids Steering Committee to serve as a bond oversight committee to administer the City's use of the Excess Bond Proceeds. The committee should include the City Administrative Officer (CAO), Chief Legislative Analyst (CLA), and Mayor and be tasked with assuring the bonds are spent in accordance with the underlying bond covenants and within the terms of the Bond Expenditure Agreement. The committee would also establish criteria for the prioritization of projects and make recommendations for funding to the City Council and Mayor.

The CRA/LA has requested that the City Council and Mayor take formal action authorizing the above actions prior to the CRA/LA taking any of its related actions. The Bond Expenditure Agreement with the Bond Spending Plan as an attachment is scheduled to go before the CRA/LA Governing Board on September 4, 2014 and the Oversight Board on September 23, 2014. The State Department of Finance ("DOF") would be the final approval necessary to approve the Bond Expenditure Agreement with a final determination anticipated in late November 2014. Upon DOF's approval, the Bond Expenditure Agreement would be added to the Recognized Obligation Payment Schedule ("ROPS") 14-15B as an enforceable obligation and the Excess Bond Proceeds are expected to be available to the City in January 2015.

Excess Bond Proceeds

As of June 30, 2014, the CRA/LA holds approximately \$89.8 million of unobligated pre-2011 tax allocation bond proceeds. This total is an aggregate of various bonds that were issued for several redevelopment project areas over many years by the former CRA. Each bond issuance has a variety of requirements described in their respective bond covenants, and future expenditures by the City must comply with those requirements and must be within the project area for which the bonds were issued. Attachment A is a summary of the Excess Bond Proceeds by redevelopment project area and bond issuance.

Bond Expenditure Agreement

The Bond Expenditure Agreement (Attachment B) will serve as the master agreement between the City and the CRA/LA that allows for the transfer of Excess Bond Proceeds to the City and authorizes the City to use such proceeds in a manner consistent with bond covenants. The Bond Expenditure Agreement as attached is in substantially final form as negotiated by both the CRA/LA and City staff and legal counsel. After approvals from the Council and Mayor, the Bond Expenditure Agreement would be executed by the Mayor or designee. Upon DOF approval, the CEO of the CRA/LA would execute the Bond Expenditure Agreement.

As per the Bond Expenditure Agreement and contingent upon its approval, the City will need to designate a segregated account by January 19, 2015, in which the CRA/LA would transfer approximately \$86.4 million in Excess Bond Proceeds. The CRA/LA would retain approximately \$3.4 million to finance the cost of administering the tax exempt bond issuances. The City will have five years in which to disburse or encumber one hundred percent of the Excess Bond Proceeds for eligible projects, programs, or activities. The City will also be required to provide CRA/LA with quarterly accounting reports on its use of the funds.

Bond Spending Plan

The Bond Spending Plan was created by a City working group consisting of staff representing the CAO, CLA, Mayor, Economic and Workforce Development Department (EWDD), Housing and Community Investment Department (HCID), and Bureau of Engineering (BOE) to delineate each redevelopment project area's available Excess Bond Proceeds as well as categories of priority projects that are of maximum benefit to the City and Affected Taxing Entities. The categories are:

- **Public Infrastructure** – Projects such as capital improvements to roadways, utility infrastructure, streetscapes, and sidewalks.
- **Community Facilities / Open Space** – Projects, such as improvements to schools, libraries, community centers, parks, public plazas, museums, theaters. Projects may include land acquisition and new construction of such types of public facilities.
- **Affordable Housing Projects** – Projects may include new construction, rehabilitation of existing buildings, land acquisition, and preservation of affordability covenants.
- **Business Assistance and Catalytic Commercial Development** – Projects, such as investment in business districts to create jobs. Projects may include façade programs, technical assistance for small businesses, establishment of Business Improvement Districts, development of underutilized and/or contaminated sites to address blight and develop catalytic projects that attract private investment. Projects may also include the rehab of historic and/or commercial buildings.

Attachment C is the Bond Spending Plan that was created with input from the City working group and City Council offices. The “Source of Funds” section lists the bond issuances, segregated by tax-exempt or taxable bonds that are the source of the Excess Bond Proceeds in a particular project area. The “Funding Category” section lists the four investment categories listed above, with estimated amounts that the City proposes to expend in each category using funds from the Excess Bond Proceeds. The “Potential Projects” section lists projects that were either listed in the original bond documents, redevelopment plan or most recent implementation plan, or are newly proposed by the City but which meet the requirements of the original bond covenants. The City has taken care to list potential projects that are consistent with the original bond documents and of maximum financial and community benefit to the other Affected Taxing Entities.

It should be noted that the Bond Expenditure Agreement allows the City flexibility to shift allocations of Excess Bond Proceeds between categories or projects listed in the Bond Spending Plan and fund new projects and activities, as long as the projects/activities are within designated project areas and consistent with bond covenants. The City working group is recommending the establishment of a new or existing internal bond oversight committee that includes the CAO, CLA, and Mayor to administer the City's use of the Excess Bond Proceeds. The bond oversight committee would be responsible to ensure that the bond funds are spent in accordance with the underlying bond covenants. The committee would also establish a framework in which City staff will prioritize projects, programs, and activities and make recommendations to the City Council for funding.

Environmental Impact

The Bond Expenditure Agreement and the Bond Spending Plan have been reviewed with respect to applicability of the California Environmental Quality Act ("CEQA") and the State CEQA Guidelines (California Code of Regulations, Title 14, Section 15000 et seq., "Guidelines"). Staff has been advised by its legal counsel Richards, Watson, and Gershon that neither the Bond Expenditure Agreement nor the Bond Spending Plan is a "project" for purposes of CEQA, as that term is defined by Guidelines Section 15378. Specifically, the Bond Expenditure Agreement and the Bond Spending Plan constitute the creation of a government funding mechanism or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. (Guidelines Section 15378(b)(4)). In addition, the Bond Expenditure Agreement and Bond Spending Plan constitute organizational or administrative activities that will not result in a direct or indirect physical change in the environment. (Guidelines Section 15378(b)(5)).

FISCAL IMPACT

There is no General Fund impact to the City of Los Angeles. If all approvals are obtained and Excess Bond Proceeds are transferred to the City, inasmuch as the funds are bond funds, the funds would be held in a special fund separate from the General Fund.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Authorize the Mayor or designee to execute the Bond Expenditure Agreement by and between the CRA/LA and City of Los Angeles as provided in substantial final form and subject to the review and approval by mutual legal counsels as to form and legality (Attachment B);
2. Adopt the Bond Spending Plan, as may be amended from time to time, to serve as informational and reference purposes for City staff to implement eligible projects,

programs, and activities that utilize the CRA/LA Excess Bond Proceeds (Attachment C);

3. Find that the Bond Expenditure Agreement and Bond Spending Plan are exempt from CEQA, direct staff to file a notice of exemption pursuant to CEQA Guidelines Section 15062, and direct staff to undertake all necessary environmental review required by CEQA prior to commencing work on any project, as defined in CEQA Guidelines Section 15378, pursuant to the Bond Expenditure Agreement and Bond Spending Plan;
4. Instruct the CAO and CLA to report within ninety (90) days on the results of the State Department of Finance's determination on the Bond Expenditure Agreement and the City's framework for administering the Excess Bond Proceeds; and,
5. Establish a bond oversight committee comprised of the City Administrative Officer, Chief Legislative Analyst, and Mayor to administer the City's use of the CRA Excess Bond Proceeds including the Bond Expenditure Agreement and Bond Spending Plan.

Attachments:

- (A) Summary of Excess Bond Proceeds
- (B) Bond Expenditure Agreement
- (C) Bond Spending Plan

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