

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCECF #14-1174
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Date: June 04, 2015

To: Honorable Members of the Economic Development Committee

From: Sharon M. Tso, Chief Legislative Analyst *ST*
Miguel A. Santana, City Administrative Officer *MAS*

Subject: FRAMEWORK FOR ADMINISTERING THE BOND EXPENDITURE AGREEMENT AND RELATED BOND SPENDING PLAN AND ESTABLISHMENT OF THE CRA/LA BOND OVERSIGHT COMMITTEE

SUMMARY

On August 29, 2014, the City Council instructed the Chief Legislative Analyst (CLA) and City Administrative Officer (CAO) to provide a report (C.F. 14-1174) on the framework in which the City of Los Angeles (City) will administer the Bond Expenditure Agreement and related Bond Spending Plan between the City and CRA/LA, A Designated Local Authority (CRA/LA) for the use of approximately \$84.1 million in Excess Bond Proceeds (Attachment B). As per Council action, the use of Excess Bond Proceeds is to be initiated through Council and reviewed by a Bond Oversight Committee, Economic Development Committee, Council and Mayor. Section 4.3 of the Bond Expenditure Agreement provides that a Bond Oversight Committee consisting of the CAO, CLA, and the Mayor, or designees, will be established to oversee expenditure of Excess Bond Proceeds. Expenditure proposals will be initiated by Motion and City department staff will be tasked with reviewing and reporting on introduced Motions.

The objective in this process is to ensure compliance with the applicable bond covenants, provisions of the Bond Expenditure Agreement, the Bond Spending Plan, and Redevelopment Law. The review process will ensure that projects, programs, or activities are feasible within the allotted time constraints imposed by the underlying governing documents and are of fiscal and social benefit to the City and Affected Taxing Entities.

The following procedures are proposed to appropriate the use of Excess Bond Proceeds:

1. **Request.** All proposed appropriations of Excess Bond Proceeds shall be initiated through Council motion and transmitted to the CAO and Economic and Workforce Development Department (EWDD) for evaluation and reporting to Committee and Council. EWDD will act as the lead department throughout the appropriation approval process and the CAO will provide input and guidance to assure project, programs, and/or activities being considered are in accordance with the underlying governing documents.
2. **Evaluation.** EWDD, in consultation with the CAO, CLA, Council Office, Mayor's Office, and affected City department(s), will first evaluate each project, program, or activity identified in a motion for compliance with the applicable bond covenants, Bond Expenditure Agreement, Bond Spending Plan, and Redevelopment Law, followed by assessing feasibility, work program prioritization, economic development potential, and fiscal and social benefits to the City and Affected Taxing Entities. From time-to-time, EWDD may solicit third-party consultant services to assist in validating assumptions and performing feasibility analysis. Projects, programs, or activities not included in the Bond Spending Plan are subject to CRA/LA Governing Board and Oversight Board review, including approval of an amendment to the Bond Spending Plan. EWDD will submit their findings in a report to the Bond Oversight Committee for consideration. The CAO may respond to any requests for further information made by the Bond Oversight Committee.
3. **Committee and Council Determination.** The Bond Oversight Committee will review EWDD's findings and either seek additional analysis from EWDD or CAO or approve recommendations for Council consideration. The Bond Oversight Committee's recommendations would then be transmitted to the Economic Development Committee and any other applicable Committee, followed by Council for further consideration.
4. **Transmittal to CRA/LA Governing and Oversight Board.** As per Section 4.3 of the Bond Expenditure Agreement, a copy of any report requesting an appropriation of Excess Bond Proceeds provided to the City Council and Mayor shall be transmitted in a timely manner to the CRA/LA who shall transmit said reports to the CRA/LA Governing Board and Oversight Board for informational purposes only. Any appropriations that deviate from what is currently permitted by the bond covenants, Bond Expenditure Agreement with related Bond Spending Plan, and Redevelopment Law would require consideration from CRA/LA's Governing Board and Oversight Board.
5. **Implementation.** Projects, programs, or activities approved for the use of Excess Bond Proceeds may be implemented through one of two options based on a needs assessment. The first option would require the appropriate City department to establish the scope of work, budget/eligible expenses, and timeline for future expenditures of Excess Bond Proceeds. The appropriate City department would then take the lead in implementing the project, program, or

activity, with ongoing oversight from the CAO and EWDD. The second option would allow EWDD to enter into contracts with third parties or Memoranda of Understanding with City departments to establish the scope of work, budget/eligible expenses, and timeline for future expenditures of Excess Bond Proceeds. Again, the CAO and EWDD will continue to serve in an oversight role to the third party or City department that is identified as the lead in implementation.

Administration

The CAO and EWDD will administer the Bond Expenditure Agreement and related Bond Spending Plan. Section 4.7 of the Bond Expenditure Agreement limits the use and expenditures of Excess Bond Proceeds for the purpose of administration. This section states that no tax-exempt Excess Bond Proceeds and no more than one percent or approximately \$436,865 of taxable Excess Bond Proceeds shall be expended for employees or consultant costs incurred for the purpose as follows:

- Bond administration costs to comply with the City's reporting requirements to the CRA/LA.

Furthermore, no tax-exempt Excess Bond Proceeds and no more than fifteen percent or approximately \$6,552,981 of taxable bond proceeds shall be expended for employees or consultant costs in connection with the following:

- Planning activities related to the prioritization and/or evaluation of potential projects.
- Reviewing potential projects for compliance with the applicable redevelopment plan, bond covenants, and California Environmental Quality Act.
- Evaluating additional revenue sources, preparing bond appropriation reports to the Council and Mayor, and otherwise maintaining the Bond Spending Plan.

The City's CRA/LA Dissolution working group developed a work program outlined in the Bond Spending Plan, and the CAO and EWDD have identified staffing needs that aligns with the parameters stated in the Bond Expenditure Agreement to implement that program. The roles and responsibilities of the CAO and EWDD in adhering to the Bond Expenditure Agreement and implementing eligible projects, programs, or activities are detailed in Attachment A to this report.

Staffing

Due to the extensive oversight involved with this funding source, it is anticipated that EWDD and the CAO will require additional staff support.

It is expected that the bulk of the projects, programs, and activities using Excess Bond Proceeds will be determined in the first five years and especially at the onset of the program. Therefore, EWDD may require the assistance of approximately two to four

personnel to handle the workload and will provide a detailed report on the staffing levels, quantity, and estimated budget for these positions for the first five years. After this initial period, it is expected that a reduced number of positions would be needed until the 10th year when all Excess Bond Proceeds must be spent. The anticipated positions created in EWDD would be civil service under resolution authorities that would require approval each year. We recommend that EWDD report to the Bond Oversight Committee with a staffing plan to fulfill the roles and responsibilities outlined in Attachment A.

In addition, the CAO is requesting one Principal Project Coordinator position to fulfill the duties outlined in Attachment A. It is estimated that this position would be needed for five years. Subsequently, a part-time position may be needed until the 10th year when all Excess Bond Proceeds must be spent. The position in the CAO's Office would be exempt.

We anticipate that this level of staffing may be necessary to successfully implement the Bond Spending Plan for the following reasons:

- All funds must be appropriated within five years. Funds not appropriated by the deadline must be returned to the CRA/LA.
- Staff will be tasked with simultaneously developing a wide variety of new programs and projects (public infrastructure, affordable housing, parks, public private partnerships, commercial developments) in a variety of communities and Council Districts across the city.
- In addition, staff is expected to find and successfully procure other funding sources (e.g., grants) to leverage projects funded with Excess Bond Proceeds.
- The staff required to appropriate all of the funds within a tight timeframe must be highly experienced with a broad breadth and depth of skills. The staffing plan proposed is to maximize the amount and quality of projects and programs that can be funded.

Direct and related costs for staff are projected at \$684,000 annually and \$3.42 million over five years but will be more accurately presented in a subsequent report to the Bond Oversight Committee. Final recommendations by the Bond Oversight Committee would be considered by Council. Both direct and related costs are eligible costs per the Bond Expenditure Agreement. Staff costs for years five through ten are expected to be relatively minor and are also eligible per the Bond Expenditure Agreement. At this time we recommend one Principle Project Coordinator position for the CAO.

It is also anticipated that current EWDD staff and other City department staff may need to immediately perform work related to the use of the Excess Bond Proceeds prior to the Bond Oversight Committee's approval of a staffing plan. Therefore, we also recommend that the CAO work with EWDD to develop a process to ensure that EWDD and any other City department can charge against the Excess Bond Proceeds in an amount not to exceed \$200,000 for any preliminary work that is performed prior to the formal designated staff having been determined.

RECOMMENDATIONS

That the Council, subject to approval of the Mayor:

1. ESTABLISH a CRA/LA Bond Oversight Committee, with the assistance of the City Administrative Officer (CAO) and Economic and Workforce Development Department (EWDD), as the entity to administer the Bond Expenditure Agreement and related Bond Spending Plan between the City of Los Angeles (City) and CRA/LA, A Designated Local Authority (CRA/LA) to be composed of the City Administrative Officer, Chief Legislative Analyst, and the Mayor, or designees, with duties and responsibilities outlined in Attachment A to this report and the City Administrative Officer as the chair of the Committee.
2. INSTRUCT the CAO to prepare and present to the CRA/LA Bond Oversight Committee the operational policies and procedures to formally process the use of the Excess Bond Proceeds identified in the Bond Expenditure Agreement and related Bond Spending Plan.
3. INSTRUCT the CAO to work with EWDD to develop a process to ensure that EWDD and any other City department can charge against the Excess Bond Proceeds in an amount not to exceed \$200,000 for any preliminary work that is performed on the Bond Expenditure Plan and related Bond Spending Plan while the formal designated staffing is determined by the CRA/LA Bond Oversight Committee.
4. INSTRUCT the EWDD to provide the CRA/LA Bond Oversight Committee with a report requesting the job classifications and budget needed to fulfill the roles and responsibilities outlined in Attachment A to this report with funding provided by the Excess Bond Proceeds (Fund 57D), subject to review and approval by the Personnel Department as to classification and the Office of the City Administrative Officer Employee Relations Division as to pay grade determination (if relevant).
5. APPROVE the addition of resolution authority and funding for one Principal Project Coordinator (9134) in the Office of the City Administrative Officer with funding provided by the Excess Bond Proceeds (Fund 57D).
6. AUTHORIZE the Controller to use the Excess Bond Proceeds to reimburse direct and related costs for the position included in Recommendation 3 and 5 above and AUTHORIZE the CAO to prepare the necessary Controller instructions to use the Excess Bond Proceeds and make any technical corrections or clarifications to the above in order to effectuate the intent of this action.

7. INSTRUCT the CAO to include staff cost reimbursements for EWDD and the CAO through the Financial Status Report.

FISCAL IMPACT

There is no General Fund impact to the City of Los Angeles. The Excess Bond Proceeds in the approximate amount of \$84.1 million have been transferred to the City and deposited into a special fund separate from the General Fund.

BACKGROUND

On October 29, 2014, Council authorized the City to enter into a Revised Bond Expenditure Agreement with CRA/LA and adopted a Revised Bond Spending Plan for the transfer of approximately \$86.4 million in Excess Bond Proceeds from the CRA/LA to the City (CF# 14-1174). Similar actions were taken by Council on August 29, 2014, but further changes to both the Bond Expenditure Agreement and Bond Spending Plan required new consideration and approval. CRA/LA's Oversight Board and the State Department of Finance (DOF) approved the Revised Bond Expenditure Agreement and related Bond Spending plan on November 13, 2014, and December 23, 2014, respectively. It is noted that DOF rejected the amount of \$86.4 million identified in the Bond Expenditure Agreement as a result of \$2.3 million in referenced bonds that no longer exist. As a result, DOF reduced the amount of Excess Bond Proceeds available to the City to \$84.1 million. The transfer of the Excess Bond Proceeds will allow for the expenditure of funds on projects and activities that are of maximum benefit to the City and Affected Taxing Entities and in a manner consistent with the respective bond covenants.

The City's CRA/LA Dissolution working group comprised of representatives of the CLA, CAO, Mayor, EWDD, and Housing and Community Investment Department (HCID) worked closely to develop the adopted Bond Expenditure Agreement and Bond Spending Plan with Council office input. The working group plans to continue to work collaboratively to assist Council offices in implementing projects, programs, and activities that utilize Excess Bond Proceeds.

Excess Bond Proceeds

The CRA/LA transferred to the City approximately \$84.1 million of unobligated pre-2011 tax allocation bond proceeds referred to as Excess Bond Proceeds in this report in January 2015 for use on eligible projects, programs, or activities. 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 its 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. The CRA/LA has retained approximately \$3.4 million exclusive of the amount provided to the City to administer the tax allocation bond issuances. CRA/LA

remains the holder of the bonds and is ultimately responsible for their appropriate administration and reporting in accordance with state and federal laws. A summary of the Excess Bond Proceeds by redevelopment project area and bond issuance is provided in Attachment B to this report. The Office of the Controller has created separate appropriation accounts by project area and by bond issuance (e.g., tax exempt, taxable) to facilitate proper administration of each pool of funds.

Bond Expenditure Agreement

The Bond Expenditure Agreement dated January 16, 2015, provides the provisions and reporting requirements the City must adhere to in utilizing both taxable and tax-exempt Excess Bond Proceeds. As per the Bond Expenditure Agreement, the City has five years in which to spend or encumber the Excess Bond Proceeds on eligible projects, programs, or activities. All Excess Bond Proceeds must be spent within ten years or any remaining balance will return to the CRA/LA.

Bond Spending Plan

The Bond Spending Plan was created by the City's CRA/LA Dissolution working group consisting of staff representing the CLA, CAO, Mayor, EWDD, HCID, Bureau of Engineering (BOE), and each respective Council Office 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 City may only appropriate Excess Bond Proceeds to those projects, programs, or activities identified in the approved Bond Spending Plan. Any project, program, or activity that is not currently included in the Bond Spending Plan will be subject to CRA/LA Governing Board and Oversight Board review, including approval of an amendment to the Bond Spending Plan.

Environmental Impact

The Bond Expenditure Agreement and 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)).

Attachments:

- (A) Bond Oversight Roles and Responsibilities
- (B) Summary of Excess Bond Proceeds

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