# Oversight Board for Redevelopment Agency Successor Agency (RASA)

**Meeting Date**: 8/20/2012 **Report Type:** Discussion

**Title: Updated Cash Flow Forecast**

**Recommendation:** Review and provide direction.

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**Presenter:** Dennis Kauffman, RASA Staff and Accounting Manager, City of Sacramento, (916) 808-5843

**Issue:** As of February 1, 2012 the Redevelopment Agency of the City of Sacramento (Agency) was dissolved. The City, in its role as Successor Agency, is responsible for the winding down of the obligations of the Agency and as part of that role has updated the cash flow forecast to confirm that sufficient resources are available to satisfy the debt and other enforceable obligations as they come due during the remainder of calendar year 2012.

**Attachments:**

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1. Description/Analysis
2. Bond Compliance Waterfall
3. Cash Flow Diagram

## DESCRIPTION/ANALYSIS

**Issue:** The objective of this cash flow forecast is to confirm that sufficient resources are available to satisfy the debt and other enforceable obligations as they come due during the remainder of calendar year 2012.

The data used to develop this cash flow forecast includes: the beginning cash balances transferred to RASA from the Sacramento Housing and Redevelopment Agency (SHRA), the property tax distributions received in January and June 2012, the debt service payments made-to-date and those coming due during the remainder of calendar year 2012, as well as project and other obligations listed on the January to June 2012 Recognized Obligation Payment Schedule (First ROPS) and on the July to December 2012 Recognized Obligation Payment Schedule (Second ROPS).

### Background

After SHRA staff reconciled the January 31, 2012 cash and investment balances, SHRA transferred approximately $95 million to RASA to be used to fund successor agency obligations. This amount included approximately $23 million of tax increment distributed to SHRA on January 27, 2012, approximately $23 million of proceeds from the sales of the Sheraton Grand Hotel and the City's Lot A on Capitol Mall, and approximately $49 million of other cash balances carried over from calendar year 2011, including approximately $27 million in unspent bond proceeds.

On June 1, 2012, RASA received a property tax distribution of approximately $15.5 million from the County Auditor-Controller's Redevelopment Property Tax Trust Fund (RPTTF). This property tax distribution was less than the approximately $18.4 million requested on the Second ROPS. The shortfall for calendar year 2012 will be covered with available cash.

Total debt payments due between now and December 2012 total approximately $36 million, including two lines of credit totaling over $12 million due on December 1, 2012. Annual debt service on outstanding bonds and loans will be slightly less than $30 million per year in future years. Most RASA debt service payments are due in May and June for interest payments, and in November and December for principal and interest payments each year.

### AB 1484 – Reevaluation of January Property Tax Distribution

The trailer bill AB 1484 required the January 27, 2012 property tax distribution to be reevaluated based on the waterfall of funding rules put in place by ABX1 26. This reevaluation applied to the First ROPS RPTTF request amount of approximately $24.1 million, for which the County distributed approximately $24.0 million to RASA (had the distribution exceeded the RPTTF request, the County would have demanded repayment for any excess received).

This reevaluation also removed the twenty percent low and moderate income (Low-Mod) set-aside requirement from the January property tax distribution. The resulting reclassification of the revenue from the Low-Mod funds to the non-housing funds left many of the Low-Mod funds, and the total unencumbered Low-Mod fund balances, in a deficit cash position. RASA staff expect that the due diligence review required by AB 1484 will confirm that the total unencumbered cash balance in the Low Mod funds was negative.

Cash Flow Forecast Methodology

The cash flow forecast used the following three guiding principles:

1. debt service shall be given the first priority, including maintaining compliance with any bond covenant or other debt-related requirement;
2. no fund shall be left with a negative cash balance and unobligated resources shall be utilized to ensure that all funds that may have had a negative cash balance are balanced to zero; and
3. receipts of property taxes from the RPTTF shall be available to satisfy all RASA obligations with priority to items 1 and 2, respectively, above.

Implementation of these guiding principles proceeded as follows:

The first step in developing this cash flow forecast was the reconciliation of RASA's cash balances for each successor agency fund with SHRA's January 31, 2012 audited cash balances.

The second step projected expenses recorded-to-date, accrued, and estimated as submitted to the Department of Finance (DOF) for the First ROPS and Second ROPS.

The third step removed project obligations that AB 1484 clarified could not be considered enforceable obligations at this time – although some of those projects may be eligible to be brought back to the Oversight Board for consideration in the future after RASA receives of a Finding of Completion from DOF.

The fourth step reserved unobligated amounts in the capital project funds to account for over-commitments of available bond proceeds in three bond proceeds funds. Remaining unobligated amounts in the capital project funds were then reserved first to eliminate any negative cash balances in the Low-Mod debt service funds, and second, to the non-housing debt service funds.

The result of the first four steps was that all bond proceeds funds had either a zero or positive unallocated cash balance, and that all Low-Mod funds and capital project funds have zero unobligated balances. Any unallocated bond proceeds remaining are being maintained for future projects (pending a Finding of Completion from DOF) or debt service payments.

The fifth step recognized other sources of revenue, such as grants or loan repayments, used to satisfy ROPS obligations. In addition, this step included the transfer to the City of the approximately $19.3 million of cash from the residual sales proceeds of the Sheraton Grand Hotel, already approved by the Oversight Board and DOF as non-RASA funds.

The sixth and final step allocated the RPTTF distributions based on the First ROPS and the Second ROPS to RASA debt service funds. In order to ensure that any distribution was in compliance with existing bond covenants, a review of representative bond covenants was conducted by the City Treasurer’s Office and a resulting bond compliance waterfall was created. This bond compliance waterfall is attached to this report as Attachment 2.

Generally, this bond compliance waterfall requires that all tax revenues be allocated, in order of seniority, to the area where those revenues were collected, before being used in other areas, once again in order of seniority, and before being used for any other legally permissible purpose.

Since ABX1 26 does not provide a property tax distribution by redevelopment area, but rather one combined distribution from the RPTTF, data was requested from the County Auditor/Controller regarding tax collection by area. Using that data and following the bond compliance waterfall provided in Attachment 2, the January 27, 2012 and June 1, 2012 distribution amounts were allocated to each redevelopment area’s debt service fund.

This led to each redevelopment area’s debt service fund having either a zero balance or a positive balance. A zero balance resulted when tax collection amounts were sufficient to cover any existing deficit as a result of a negative beginning cash balance and any required debt service payments. A positive balance resulted when, after all payments were made, no tax additional tax allocation was necessary as there was a remaining unobligated amount. This final step resulted in the identification of an estimated unobligated balance of $1.4 million in the Redevelopment Obligation Retirement Fund (RORF).

RASA staff expect the due diligence review required by AB 1484 to determine the exact amount of any unobligated cash balances that will have to be returned to the taxing entities pursuant to ABX1 26 and AB1484.

Cash Flow Forecast Summary

- The following table summarizes the steps and associated dollar amounts in the cash flow forecast (in millions):

| | | |
|---|---|---|
| 1. | Beginning Cash Balances | $ 94.3 |
| 2. | Total ROPS 1 Actual + ROPS 2 Estimated Payments | (81.7) |
| 3. | AB1484 Project Obligation Reductions | 9.8 |
| 4. | Net transfers from capital project funds to Low-Mod and non-housing debt service funds | - |
| 5. | a. Other Revenues (Grants, Loans, etc.) | 1.0 |
| | b. Sheraton sale proceeds to be transferred to the City | (19.3) |
| 6. | Net RPTTF Distributions* | 15.5 |
| 7. | Projected balances on 12/31/2012** | $ 19.6 |

* includes reallocation of January 27, 2012 distribution
** includes unallocated bond proceeds

- The following table summarizes the components of the projected ending cash balances at December 31, 2012 (in millions):

| | |
|---|---|
| Bond Proceed Funds (unencumbered amount) | $ 10.0 |
| Capital Project Funds | - |
| "Lot A" fund (City asset sale proceeds) | 3.2 |
| Low-Mod Debt Service Funds | - |
| Debt Service Funds | 5.0 |
| RORF balance | 1.4 |
| Total | $ 19.6 |

**Environmental Considerations:** This report addresses administrative, organizational, and fiscal matters. Such matters do not constitute a "project" and are therefore exempt from the California Environmental Quality Act (CEQA) according to Section 15378(b)(2), (4) and (5) of the CEQA Guidelines. The development projects that are listed on the ROPS for funding have been subject to environmental review under CEQA.

**Financial Considerations:**

This cash flow forecast confirms that sufficient resources are available to satisfy the debt and other enforceable obligations as they come due for the rest of calendar year 2012. This forecast also estimates a positive unobligated cash balance may exist at the end of calendar year 2012. A final calculation of any such "excess resources" amount will be determined as part of the "due diligence review" required by AB 1484.

**Attachment 2**

## Proposed Allocation of Tax Increment Revenues

Introduction: It is the City's understanding from State of California, Department of Finance (DOF) representatives and Sacramento County representatives, that with the passage of AB 26 and trailer bill AB1484, tax increment revenue generated within each redevelopment project area is not limited to payment of debt for that project area. The revenues are received as one combined payment to be deposited to the Redevelopment Obligation Retirement Fund (RORF) for payment of obligations as listed on the Recognized Obligations Payment Schedule (ROPS).

Based on a review of various bond covenants[1], and to comply with the requirements of AB 26, as amended by AB 1484, to make payment for all "indebtedness obligations" to avoid defaults, the City as the Redevelopment Agency Successor Agency (RASA) is proposing to allocate the property tax revenues distributed by the County to RASA to first pay indebtedness obligations within each project area in compliance with the bond covenants and then pay the remaining other "enforceable obligations" of the dissolved redevelopment agency with the remaining tax proceeds based on the following priority order.

1. Annual tax revenues allocated by project area to all parity *senior* debt service/loan payments of the respective project area;

2. Annual tax revenues allocated by project area to replenish any bond reserve requirement of parity *senior* debt (if needed) of the respective project area;

3. Annual tax revenues allocated by project area to all parity *subordinate* debt of the respective project area;

4. Annual surplus tax revenues from any project area may be allocated to pay any other *senior* debt service needs of any other project area on parity basis if more than one project area;

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[1] Documents reviewed included the transcripts (Official Statement, Loan Agreement, Advance Funding Agreement, and Indenture) from the 1993, 1998, 2000, 2005, and 2006 Tax Allocation Revenue Bonds overseen by SHRA, as well as, the Loan Agreements and Advance Repayment Agreements from the 1999 CIRB, 2002 CIRB, 2005 Refunding Revenue, 2006 CIRB Series A, B, and the 2006 CIRB Series E, and lastly, the two California Infrastructure and Economic Development Bank Loans.

[2] Covenants are to entrap for that bond year – any entrapment for future years sinking fund need to be reviewed for tax-exempt bona fide debt service fund tax issues i.e. yield restriction.

5. Annual surplus tax revenues from any project area may be allocated to pay any other *subordinate* debt service needs of any other project area on parity basis if more than one project area;

6. Annual surplus tax revenues[2] from a project area may be allocated to set aside as “reserves” if necessary to make future debt service payments for that project area;

7. Annual surplus tax revenues[2] from any project area may be allocated to set aside as “reserves” if necessary to make future debt service payments of any other project area;

8. Surplus tax revenues remaining after the foregoing debt obligations may be used for payment of all other enforceable obligations on the approved ROPS.

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[1] Documents reviewed included the transcripts (Official Statement, Loan Agreement, Advance Funding Agreement, and Indenture) from the 1993, 1998, 2000, 2005, and 2006 Tax Allocation Revenue Bonds overseen by SHRA, as well as, the Loan Agreements and Advance Repayment Agreements from the 1999 CIRB, 2002 CIRB, 2005 Refunding Revenue, 2006 CIRB Series A, B, and the 2006 CIRB Series E, and lastly, the two California Infrastructure and Economic Development Bank Loans.

[2] Covenants are to entrap for that bond year – any entrapment for future years sinking fund need to be reviewed for tax-exempt bona fide debt service fund tax issues i.e. yield restriction.

Attachment 3

# RASA CASH FLOW SUMMARY