

AGENDA REPORT

Date: January 7, 2015
To: Oversight Board
From: John V. Guthrie, Oversight Board Member
Subject: February 2, 2015 Oversight Board Meeting Agenda Item No. 5.A
Consideration of a Revised Resolution Relating to Use of Unspent Bond Proceeds to Redeem/Defeas Outstanding Bond Issues

Executive Summary:

At its September 19, 2014 meeting, the Oversight Board approved Resolution No. 2014-03 (Oversight Board) ("Resolution No. 2014-03"). Resolution No. 2014-03 directed that the Successor Agency use unspent bond proceeds held by the Successor Agency to defease/redeem, i.e. to pay back, prior outstanding bonds issued by the Redevelopment Agency. The purposes of this action were to both minimize risk and maximize benefits to the holders of enforceable obligations and the affected taxing entities.

Pursuant to Health and Safety Code Section 34179 (h), the California Department of Finance ("DOF") reviewed Resolution No. 2014-03. On November 17, 2014, DOF returned Resolution No. 2014-03 to the Oversight Board for reconsideration, specifically stating that it "did not include the Agency in this process." Therefore, Resolution No. 2014-03 is not effective.

The Santa Clara County Finance Agency, based in part on recent consultation with DOF, has provided me with a new version of Resolution No. 2014-03 that contains revisions that adequately address DOF's concerns by directing the Successor Agency to prepare a defeasance plan. This Agenda item asks the Oversight Board to approve the newly revised resolution.

Requested Action:

1. Approve Resolution No. 2015-01 (Oversight Board) attached hereto as Exhibit "A" entitled "A Resolution of the Oversight Board of the Successor Agency for the City of Santa Clara Redevelopment Agency Relating to Unspent Bond Proceeds."

Background:

At its September 12, 2014 meeting, the Oversight Board approved Resolution No. 2014-03 (Oversight Board). A true and correct copy of Resolution No. 2014-03 is attached hereto as Exhibit "B." As indicated, Resolution No. 2014-03 Sections 2, 3 and 4 directed the Successor Agency to use current or future unspent bond proceeds from bond issuances in 1999, 2003, and

2011 to redeem/defeas these bond issuances to the greatest extent feasible immediately or as soon as legally possible consistent with the existing bond covenants. For background and reference, the September 12, 2014 Agenda Report relating to Resolution No. 2014-03, including Supplemental Report dated September 14, 2014, is attached hereto as Exhibit "C." In addition, a letter from Charles Cardall, counsel to the County Finance Agency, previously submitted to the Oversight Board is attached hereto as Exhibit "D." This letter recommended adoption of Resolution No. 2014-03 for the reasons stated in the letter.

The State DOF reviewed Resolution No. 2014-03 pursuant to the Dissolution Law, Health and Safety Code Section 34179 (h). DOF did not approve the Resolution and it is not effective. A true and correct copy of DOF's November 17, 2014 review letter is attached hereto as Exhibit "E." The DOF letter references Health and Safety Code Section 34181(e) which authorizes the Oversight Board to direct the Agency to determine whether any contracts, agreements, or other arrangements should be terminated or renegotiated to reduce liabilities and increase revenues to the taxing entities. The letter stated that the Oversight Board "did not include the Agency in this process."

Notwithstanding this, DOF did, however, approve the defeasance of the 1999 and 2011 bonds on ROPS FY 14-15B, as line items 33 and 34.

The City objected to the ROPS items and Resolution No. 2014-03 by way of a letter, attached hereto as Exhibit "F." Notably, in its letter the City/Successor Agency stated that "[i]f DOF elects to disapprove the Oversight Board action in Resolution No. 2014-03, the Successor Agency will . . . construe the Oversight Board action as direction to Successor Agency staff to develop a defeasance plan for the 2011 Bonds"

Analysis:

In light of DOF's letter, County Finance Agency staff has reviewed Resolution No. 2014-03 and applicable provisions of the Dissolution Law and has prepared a new version of Resolution No. 2014-03 for the Oversight Board's consideration. County Finance Agency staff has consulted with DOF regarding the revised resolution. As indicated, Draft Resolution No. 2015-01 contains the following revisions to address DOF's concerns, summarized as follows:

- At page 3, draft Resolution No. 2015-01 adds a reference to Health and Safety Code section 34171(d)(1)(E) which provides in part that: "[N]othing in this act shall prohibit either the successor agency, with the approval or at the direction of the oversight board, *or the oversight board itself* from terminating any existing agreements or contracts and providing any necessary and required compensation or remediation for such termination."
- At pages 4 and 5, draft Resolution No. 2015-01 clarifies that the bond redemption/defeasance strategy constitutes a termination consistent with and authorized

by Health and Safety Code Section 34181(e), including DOF's request to involve the Successor Agency in the preparation of the specific defeasance plans.

- Section 2 of Draft Resolution No. 2015-01 references Section 34171(d)(1)(E) and Section 34181(e) as authority for the Oversight Board's action and gives direction to the Successor Agency consistent with these sections to prepare redemption/defeasance plans and recommendations for partial termination for the 1999 and 2011 bond issuances and to present these plans to the Oversight Board on or before February 27, 2015.

Reduces Liabilities

By definition, using available bond proceeds to pay down the outstanding bonds results in a reduction in the outstanding liability on those bonds. At a minimum, such a reduction would equal the amount of the proceeds applied, but likely would be considerably greater by avoiding certain interest payments. I previously prepared and distributed an example spreadsheet showing this reduction in liabilities with respect to the 2011 Bonds. This example is attached hereto as Exhibit "G". Liability reduction on the 1999 Bonds would be proportionately greater because those bonds are immediately callable.

In addition, particularly with respect to the 1999 Bonds but also applicable to the 2011 Bonds, reducing or eliminating the potential IRS risk as explained in Exhibit D would result in a significant reduction in possible liabilities associated with a potential audit or accompanying findings, penalties, and interest.

Increases Net Revenues to the Affected Taxing Entities

Defeasance/redemption of the 1999 and 2011 Bonds would result in an increase in net revenues to the affected taxing entities. All of these bonds currently have debt service paid out of property tax funds from the RPTTF and are listed on each ROPS.

For the 1999 Bonds, which are immediately callable, defeasance would result in a reduction in debt service payments from the RPTTF, thereby directly increasing the residual property tax distributions to the affected taxing entities.

For the 2011 Bonds, which are not callable until 2021, defeasance would still result in a reduction in debt service payments from the RPTTF, but not until such defeasance occurs. The savings thereafter, however, would be substantial and would directly increase the residual property tax distributions to the affected taxing entities.

In the Best Interests of the Affected Taxing Entities

The defeasance of the 1999 and 2011 Bonds is in the best interests of the affected taxing entities because it would (1) reduce liabilities, (2) increase net revenues, (3) help expedite the wind-

down of the former RDA, (4) reduce administrative costs associated with holding the bond proceeds, and (5) substantially mitigate identified risks associated with continuing to hold such proceeds.

Conclusion:

For the reasons stated above, adoption of the attached Resolution by the Oversight Board is consistent with the Dissolution Law and the Oversight Board's fiduciary duties to both the holders of enforceable obligations and the affected taxing entities. The proposed Resolution is consistent with consultation with the DOF.

Attachments:

Exhibit "A": Draft Resolution No. 2015-01 (Oversight Board)

Exhibit "B": Resolution No. 2014-03(Oversight Board)

Exhibit "C": September 12, 2014 Agenda Report, including September 15 Supplemental Report

Exhibit "D": September 16, 2014 letter of Charles Cardall to Director, County Finance Agency

Exhibit "E": November 17, 2014 Letter of Justyn Howard, Acting Program Budget Manager, to Mr. Gary Ameling, Assistant City Manager and Director of Finance

Exhibit "F": September 29, 2014 Letter of Julio Fuentes, City Manager, to Justyn Howard, Department of Finance

Exhibit "G": September 17, 2014 City of Santa Clara 2011 Debt Service Schedule Prepared by John Guthrie

Exhibit "A": Draft Resolution No. 2015-01 (Oversight Board)

RESOLUTION NO. 2015-__ (OVERSIGHT BOARD)

**A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY
FOR THE CITY OF SANTA CLARA REDEVELOPMENT AGENCY RELATING TO
UNSPENT BOND PROCEEDS**

WHEREAS, the California Legislature enacted Part 1.85 of the Health and Safety Code, Sections 34170 *et seq.* (the "Dissolution Law") to dissolve redevelopment agencies formed under the Community Redevelopment Law (Health and Safety Code section 33000 *et seq.*);

WHEREAS, pursuant to Health and Safety Code section 34173, the City Council of the City of Santa Clara (the "City Council") declared that the City of Santa Clara, a charter city (the "City"), would act as successor agency (the "Successor Agency") for the dissolved City of Santa Clara Redevelopment Agency (the "RDA") effective February 1, 2012;

WHEREAS, on February 1, 2012, the RDA was dissolved pursuant to Health and Safety Code Section 34172;

WHEREAS, on March 8, 2011 prior to its dissolution the RDA transferred to the City unspent bond proceeds from the 1999 Series A and Series B Tax Allocation Bonds (the "1999A Bonds" and the "1999B Bonds," respectively, and collectively the "1999 Bonds") in the amount of \$56,900,192 and from the 2003 Tax Allocation Bonds (the "2003 Bonds") in the amount of \$5,855,966;

WHEREAS, in May 2011, the RDA sold Tax Allocation Bonds in the amount of \$31,411,295 (the "2011 Bonds"). Of the net proceeds of \$27,697,231, \$25,000,000 from the 2011 Bonds was transferred to the City by the RDA.

WHEREAS, bond proceeds transferred by the RDA to the City prior to the RDA's dissolution may be subject to clawback by the State Controller's Office ("SCO") pursuant to Health and Safety Code section 34167.5 and the orders of the State Department of Finance ("DOF") pursuant to Health and Safety Code section 34179.6;

WHEREAS, the SCO and DOF did order the return of various bond proceeds;

WHEREAS, the City has partially complied with the SCO and DOF orders and so has previously returned the following bond proceeds to the Successor Agency: 1999 Bonds (\$11,113,156) and 2011 Bonds (\$25,000,560);

WHEREAS, the effective interest rate on the 2011 Bonds ranges between 4.75% and 7.86%;

WHEREAS, the 2011 Bond covenants preclude redemption of the bonds prior to June 1, 2021;

WHEREAS, the Dissolution Law provides for the appointment of an oversight board (the "Oversight Board") with specific duties to approve certain Successor Agency actions pursuant to Health and Safety Code section 34180 and to direct the Successor Agency in certain other actions pursuant to Health and Safety Code section 34181;

WHEREAS, the bonds constitute "enforceable obligations" pursuant to Health and Safety Code section 34171;

WHEREAS, the Dissolution Law imposes certain duties on the Oversight Board, including but not limited to, fiduciary responsibilities to holders of enforceable obligations and the taxing entities that benefit from distributions of property tax and other revenues, pursuant to Health and Safety Code Section 34179(i);

WHEREAS, Health and Safety Code Section 34179(c) authorizes the Oversight Board to direct the Successor Agency staff to perform work in furtherance of the Oversight Board's duties and

responsibilities under the Dissolution Law, including but not limited to the Oversight Board's fiduciary duties to holders of enforceable obligations and the affected taxing entities;

WHEREAS, Health and Safety Code section 34171(d)(1)(E) provides in part that “[N]othing in this act shall prohibit either the successor agency, with the approval or at the direction of the oversight board, or the oversight board itself from terminating any existing agreements or contracts and providing any necessary and required compensation or remediation for such termination.”

WHEREAS, Health and Safety Code section 34181(e) authorizes the Oversight Board to direct the Successor Agency to determine whether any contracts, agreements, or other arrangements between the dissolved RDA and any private parties should be terminated or renegotiated to reduce liabilities and increase net revenues to the taxing entities, and to present such agreements to the Oversight Board for approval. The Board may approve any amendments to or termination of such agreements if it finds that doing so would be in the best interests of the taxing entities;

WHEREAS, the dissolved RDA covenanted to the owners of the bonds, in connection with the issuance of the bonds, to take actions to maintain the tax-exempt status of the bonds, and such covenants are now an important obligation of the Successor Agency at a priority level equal to the payment of debt service on the bonds;

WHEREAS, the Successor Agency's Recognized Obligation Payment Schedule (“ROPS”) for July 1, 2014 to December 31, 2014 (“ROPS 14-15A”) approved by the Oversight Board on February 27, 2014 includes, but is not limited to, debt service for the following bonds: the 1999 Bonds and the 2011 Bonds;

WHEREAS, the Successor Agency's ROPS for January 1, 2015 to July 1, 2015 ("ROPS 14-15B") approved by the Department of Finance on November 14, 2014 includes the defeasance/redemption of the unspent bond proceeds for the 1999 Bonds and the 2011 Bonds;

WHEREAS, as of February 27, 2014, the outstanding debt service obligation on the 1999 Bonds was approximately \$53,925,669. The debt service payment for the six-month period from July 1, 2014 to December 31, 2014 for the 1999 Bonds' outstanding debt obligation is \$1,131,081. This debt service payment is paid entirely from the Redevelopment Property Tax Trust Fund ("RPTTF");

WHEREAS, as of February 27, 2014, the 2011 Bonds collectively had an approximate outstanding debt obligation of \$60,582,350. The debt service payments on the 2011 Bonds for ROPS 14-15A is \$325,306. This debt service payment is paid entirely from the RPTTF;

WHEREAS, pursuant to the Official Statement and the Fiscal Agent Agreement for the 1999 Bonds, the 1999 Bonds are subject to optional redemption at any time in whole or in part from any available source of funds and, if implemented, such a redemption constitutes a partial termination pursuant to Health and Safety Code Section 34181(e);

WHEREAS, pursuant to the Official Statement and the Fiscal Agent Agreement for the 2011 Bonds, the 2011 Bonds maturing on or before June 1, 2021 are not subject to redemption prior to their respective stated maturity dates. The 2011 Bonds maturing on or after June 1, 2022 are subject to optional redemption in whole or in part from any available source of funds on any date on or after June 1, 2021 and, if implemented, such a redemption constitutes a partial termination pursuant to Health and Safety Code Section 34181(e);

WHEREAS, the Oversight Board has previously been advised publicly that using the unspent proceeds of the bonds to redeem or defease the bonds as soon as possible is a proactive strategy to mitigate any potential tax risk associated with the delayed expenditure of the bond proceeds;

WHEREAS, consistent with its fiduciary responsibilities to the taxing entities, the Oversight Board finds that it is prudent to use any bond proceeds currently possessed by the Successor Agency or any future bond proceeds that the Successor Agency subsequently acquires in a manner to minimize to the maximum extent feasible the risks associated with the delayed expenditure of the bond proceeds and to maximize the return of funds to the taxing entities;

WHEREAS, as stated above, the 1999 Bonds and the 2011 Bonds contain call provisions that authorize the issuer, now the Successor Agency, to redeem/defeas the bonds.

WHEREAS, the use of unspent bond proceeds reduces liabilities because it results in a proportionate reduction of outstanding principal due, plus a reduction of interest owed;

WHEREAS, the use of unspent bond proceeds increases net revenues to the affected taxing entities by reducing the amount of current or future debt service required to be paid on the ROPS from the RPTTF, thereby directly increasing distributions of property tax to the taxing entities;

WHEREAS, the record before the Oversight Board, specifically including discussion and materials presented at the July 2013, August 2013, and September 19, 2014 meetings, provides supporting information upon which the actions set forth in this Resolution are based; and,

WHEREAS, the Oversight Board finds that this Resolution is in the best interests of the affected taxing entities.

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY FOR THE CITY OF SANTA CLARA REDEVELOPMENT

AGENCY AS FOLLOWS:

SECTION 1. The Oversight Board hereby finds, resolves, and determines that the foregoing recitals are true and correct, and, together with information provided by the Successor Agency staff, Oversight Board members, and the public, form the basis for the approvals, findings, resolutions, and determinations set forth below.

SECTION 2. Consistent with Health and Safety Code Sections 34181(e) and 34171(d)(1)(E), the Oversight Board directs the Successor Agency to prepare specific defeasance plans for the 1999 Bonds and the 2011 Bonds. The purpose of each defeasance plan shall be to use all bond proceeds from these issuances that the Successor Agency currently controls and whatever future bond proceeds that it may control to defease/redeem these bond issuances in a manner that to the fullest extent possible reduces liability and increases net revenues to the taxing entities.

Implementation of such defeasance plans to redeem/defease the bond issues consistent with reducing liability and increasing net revenues to the taxing entities shall constitute a termination consistent with Health and Safety Code Section 34181(e) and is in the best interests of the affected taxing entities. The Successor Agency shall present the proposed defeasance plans and recommendations for termination to the Oversight Board on or before February 27, 2015.

SECTION 3. This Resolution shall take effect at the time and in the manner prescribed in Health and Safety Code section 34179(h).

SECTION 4. Severability. If any provision or clause of this Resolution or the application thereof is held to be unconstitutional or otherwise invalid by any court of competent jurisdiction, such invalidity shall not affect other provisions or clauses or applications of this Resolution

which can be implemented without the invalid provision, clause or application; and to this end,
the provisions of this Resolution are declared to be severable.

//

//

//

//

//

//

//

//

//

//

//

//

//

//

//

//

//

//

//

//

SECTION 5. Third Party Beneficiary Enforcement. All taxing entities as defined in Health and Safety Code section 34171(k) affected by the RDA's dissolution are express third party beneficiaries of this Resolution. It is the intent of this Resolution to authorize such taxing entities to the fullest extent authorized under law to enforce this Resolution in a court of competent jurisdiction or otherwise.

CERTIFICATION

I HEREBY CERTIFY THE FORGOING TO BE A TRUE COPY OF A RESOLUTION PASSED AND ADOPTED BY THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY FOR THE CITY OF SANTA CLARA REDEVELOPMENT AGENCY AT A SPECIAL MEETING THEREOF HELD ON ___ DAY OF FEBRUARY 2015, BY THE FOLLOWING VOTE:

AYES: BOARD MEMBERS

NOES: BOARD MEMBERS

ABSTAIN: BOARD MEMBERS

ABSENT: BOARD MEMBERS

APPROVE:

ATTEST:

Don Gage
Chairperson

Jennifer Yamaguma
Clerk to the Oversight Board

Exhibit "B": Resolution No. 2014-03(Oversight Board)

RESOLUTION NO. 2014-03 (OVERSIGHT BOARD)

A RESOLUTION OF THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY FOR THE CITY OF SANTA CLARA REDEVELOPMENT AGENCY RELATING TO UNSPENT BOND PROCEEDS AND MAKING RELATED FINDINGS AND DECLARATIONS AND TAKING RELATED ACTIONS

WHEREAS, California enacted Part 1.85 of the Health and Safety Code, Sections 34170 *et seq.* (the "Dissolution Law") to dissolve redevelopment agencies formed under the Community Redevelopment Law (Health and Safety Code section 33000 *et seq.*);

WHEREAS, pursuant to Health and Safety Code section 34173, the City Council of the City of Santa Clara (the "City Council") declared that the City of Santa Clara, a charter city (the "City"), would act as successor agency (the "Successor Agency") for the dissolved City of Santa Clara Redevelopment Agency (the "RDA") effective February 1, 2012;

WHEREAS, on February 1, 2012, the RDA was dissolved pursuant to Health and Safety Code Section 34172;

WHEREAS, on March 8, 2011 prior to its dissolution the RDA transferred to the City unspent bond proceeds from the 1999 Series A and Series B Tax Allocation Bonds (the "1999A Bonds" and the "1999B Bonds, respectively, and collectively the "1999 Bonds") in the amount of \$56,900,192 and from the 2003 Tax Allocation Bonds (the "2003 Bonds") in the amount of \$5,855,966;

WHEREAS, in May 2011, the RDA sold Tax Allocation Bonds in the amount of \$31,411,295 (the "2011 Bonds"). Of the net proceeds of \$27,697,231, \$25,000,000 from the 2011 Bonds was transferred to the City by the RDA.

WHEREAS, the City has previously returned the following bond proceeds to the Successor Agency: 1999 Bonds (\$ 11,113,156) and 2011 Bonds (\$25,000,552.06);

WHEREAS, bond proceeds transferred by the RDA to the City prior to the RDA's dissolution may be subject to clawback by the State Controller's Office ("SCO") pursuant to Health and Safety Code section 34167.5, and the orders of the State Department of Finance ("DOF") pursuant to Health and Safety Code section 34179.6;

WHEREAS, the Internal Revenue Code of 1986 ("Code") imposes several requirements on issuers of tax-exempt bonds. These requirements must be met at issuance and throughout the term of the bonds. One of these requirements is that the issuer must have a reasonable expectation of spending 85% of the bond proceeds for qualified purposes within three years from the date of issuance.

WHEREAS, the Successor Agency has succeeded to the RDA's interest as issuer of the bonds. Therefore, if any arbitrage or other penalties are due and payable with respect to the bonds, then the Successor Agency could be obligated to pay those amounts. This, in turn, would reduce the amount of residual redevelopment property tax revenues available for distribution to the taxing entities;

WHEREAS, the effective interest rate on the 2011 Bonds ranges between 4.75% and 7.86%;

WHEREAS, the 2011 Bond covenants preclude redemption of the bonds prior to June 1, 2021;

WHEREAS, the Dissolution Law provides for the appointment of an oversight board (the "Oversight Board") with specific duties to approve certain Successor Agency actions pursuant to Health and Safety Code section 34180 and to direct the Successor Agency in certain other actions pursuant to Health and Safety Code section 34181;

WHEREAS, the Dissolution Law imposes certain duties on the Oversight Board, including but not limited to, fiduciary responsibilities to holders of enforceable obligations and the taxing

entities that benefit from distributions of property tax and other revenues, pursuant to Health and Safety Code Section 34179(i);

WHEREAS, Health and Safety Code Section 34179(c) authorizes the Oversight Board to direct the Successor Agency staff to perform work in furtherance of the Oversight Board's duties and responsibilities under the Dissolution Law;

WHEREAS, Health and Safety Code section 34181(e) authorizes the Oversight Board to direct the Successor Agency to determine whether any contracts, agreements, or other arrangements between the dissolved RDA and any private parties should be terminated or renegotiated to reduce liabilities and increase net revenues to the taxing entities, and to present such agreements to the Oversight Board for approval. The Board may approve any amendments to or termination of such agreements if it finds that doing so would be in the best interests of the taxing entities;

WHEREAS, the dissolved RDA covenanted to the owners of the bonds, in connection with the issuance of the bonds, to take actions to maintain the tax-exempt status of the bonds, and such covenants are now an important obligation of the Successor Agency at a priority level equal to the payment of debt service on the bonds;

WHEREAS, the Dissolution Law includes bonds in the definition of "enforceable obligations" pursuant to Health and Safety Code section 34171;

WHEREAS, the Successor Agency's Recognized Obligation Payment Schedule ("ROPS") for July 1, 2014 to December 31, 2014 ("ROPS 14-15A") approved by the Oversight Board on February 27, 2014 includes, but is not limited to, debt service for the following bonds: the 1999 Bonds and the 2011 Bonds;

WHEREAS, as of February 27, 2014, the outstanding debt service obligation on the 1999 Bonds was approximately \$53,925,669. The debt service payment for the six-month period from July 1, 2014 to December 31, 2014 for the 1999 Bonds' outstanding debt obligation is \$1,131,081. This debt service payment is paid entirely from the Redevelopment Property Tax Trust Fund ("RPTTF");

WHEREAS, as of February 27, 2014, the 2011 Bonds collectively had an approximate outstanding debt obligation of \$60,582,350. The debt service payments on the 2011 Bonds for ROPS 14-15A is \$325,306. This debt service payment is paid entirely from the RPTTF;

WHEREAS, pursuant to the Official Statement and the Fiscal Agent Agreement for the 1999 Bonds, the 1999 Bonds are subject to optional redemption at any time in whole or in part from any available source of funds;

WHEREAS, pursuant to the Official Statement and the Fiscal Agent Agreement for the 2011 Bonds, the 2011 Bonds maturing on or before June 1, 2021 are not subject to redemption prior to their respective stated maturity dates. The 2011 Bonds maturing on or after June 1, 2022 are subject to optional redemption in whole or in part from any available source of funds on any date on or after June 1, 2021;

WHEREAS, the Oversight Board has previously been advised that using the unspent proceeds of the bonds to redeem or defease the bonds as soon as possible is the best way to mitigate any tax risk associated with the delayed expenditure of the bond proceeds;

WHEREAS, consistent with its fiduciary responsibilities to the taxing entities, the Oversight Board finds that it is prudent to use any bond proceeds currently possessed by the Successor Agency or any future bond proceeds that the Successor Agency subsequently acquires in a

manner to minimize to the maximum extent feasible the risks associated with the delayed expenditure of the bond proceeds and to maximize the return of funds to the taxing entities;

WHEREAS, with regard to the 1999 Bonds, the Oversight Board finds that use of the 1999 Bonds unspent proceeds to redeem the 1999 Bonds to the fullest extent possible is in the best interests of the taxing entities and consistent with the Successor Agency's fiduciary duties to bondholders, as holders of enforceable obligations; and

WHEREAS, with regard to the 2011 Bonds, the Oversight Board finds that transfer of the 2011 Bonds unspent proceeds to the Fiscal Agent for the 2011 Bonds for defeasance and redemption of the 2011 Bonds on the earliest possible date would be in the best interests of the taxing entities. In addition, the Dissolution Law requires defeasance of the 2011 Bonds;

WHEREAS, the record before the Oversight Board provides supporting information upon which the actions set forth in this Resolution are based.

NOW, THEREFORE, BE IT RESOLVED BY THE OVERSIGHT BOARD OF THE SUCCESSOR AGENCY FOR THE CITY OF SANTA CLARA REDEVELOPMENT AGENCY AS FOLLOWS:

SECTION 1. The Oversight Board hereby finds, resolves, and determines that the foregoing recitals are true and correct, and, together with information provided by the Successor Agency staff, Oversight Board members, and the public, form the basis for the approvals, findings, resolutions, and determinations set forth below.

SECTION 2. With respect to the 1999 Bonds, the 2003 Bonds, and the 2011 Bonds the Oversight Board requires the Successor Agency to immediately use whatever bond proceeds from these issuances that the Successor Agency currently controls and whatever future bond

proceeds that it may control immediately to defease/redeem these bond issuances in accordance with the following direction:

- (a) For the 1999 Bonds and the 2003 Bonds, the unspent bond proceeds of an issue of bonds will be transferred immediately to the fiscal agent for such bonds, and the fiscal agent will be directed to use such proceeds to call and redeem, on the earliest date possible, as many bonds as possible of that issue starting with the latest outstanding maturity of bonds of that issue and progressing in reverse order of maturity;
- (b) For the 2011 Bonds, the unspent bond proceeds will be transferred immediately to the fiscal agent for such bonds and as soon as possible an escrow agreement or letter of instructions will be drafted and executed with or for the fiscal agent for the bonds specifying that the unspent bond proceeds so transferred will be irrevocably deposited in an escrow account and used to legally defease and redeem bonds, and the bonds to be defeased will be selected such that: (1) as of the date of the defeasance, the weighted average maturity of the bonds of the issue to be defeased is the same as (or due solely to whole bond rounding, slightly greater than) the weighted average maturity of all of the bonds outstanding of the issue and (2) the bonds selected to be defeased will be the bonds scheduled to mature first and the bonds scheduled to mature last such that the principal amount of the bonds scheduled to mature first will be maximized.

SECTION 3. The Oversight Board directs the Successor Agency to direct the fiscal agent of the 2011 Bonds, The Bank of New York Mellon Trust Company, N.A. (BNY Mellon), in writing by January 7, 2015, to establish an irrevocable escrow fund, in the amount of \$25 million, and to lock all proceeds into a US treasury bond with a maturity date around June 30, 2021;

SECTION 4. The Oversight Board directs that the unspent 1999 Bonds proceeds, in the amount of \$11.1 million, and that the unspent 2011 Bond proceeds, in the amount of \$25 million, be added to the ROPS for the period of January 1, 2015 through June 30, 2015 (“ROPS 14-15B”);

SECTION 5. This Resolution shall take effect at the time and in the manner prescribed in Health and Safety Code section 34179(h).

SECTION 6. Severability. If any provision or clause of this Resolution or the application thereof is held to be unconstitutional or otherwise invalid by any court of competent jurisdiction, such invalidity shall not affect other provisions or clauses or applications of this Resolution which can be implemented without the invalid provision, clause or application; and to this end, the provisions of this Resolution are declared to be severable.

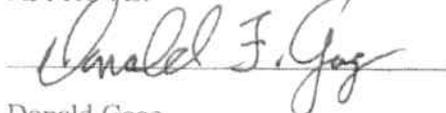
SECTION 7. Third Party Beneficiary Enforcement. All taxing entities as defined in Health and Safety Code section 34171 (k) affected by the RDA’s dissolution are express third party beneficiaries of this Resolution. It is the intent of this Resolution to authorize such taxing entities to the fullest extent authorized under law to enforce this Resolution in a court of competent jurisdiction or otherwise.

CERTIFICATION

I HEREBY CERTIFY THE FOREGOING TO BE A TRUE COPY OF A RESOLUTION PASSED AND ADOPTED BY OVERSIGHT BOARD OF THE SUCCESSOR AGENCY OF THE REDEVELOPMENT AGENCY OF THE CITY OF SANTA CLARA, CALIFORNIA, AT A SPECIAL MEETING THEREOF HELD ON THE 19th DAY OF SEPTEMBER, 2014, BY THE FOLLOWING VOTE:

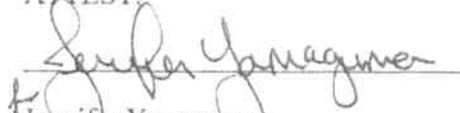
AYES:	BOARD MEMBERS:	Cauble, Chheng, Guthrie and Chairperson Gage
NOES:	BOARD MEMBERS:	Ameling and Gillmor
ABSENT:	BOARD MEMBERS:	Maduli
ABSTAINED:	BOARD MEMBERS:	None

APPROVE:



Donald Gage
Chairperson

ATTEST:



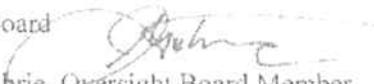
Jennifer Yamaguma
Clerk to the Oversight Board

Exhibit "C": September 12, 2014 Agenda Report, including September
15 Supplemental Report

09/19/14

SB-1

AGENDA REPORT

Date: September 12, 2014
To: Oversight Board 
From: John V. Guthrie, Oversight Board Member
Subject: September 19, 2014 Oversight Board Meeting Agenda Item No. ____
Consideration of Resolution Regarding Use of Unspent Bond Proceeds to Redeem/Defease Outstanding Bond Issues

Executive Summary:

This Agenda item requests that the Oversight Board approve the attached Resolution which was prepared and provided to me by the Santa Clara County Finance Agency. The Resolution directs the Successor Agency to use unspent bond proceeds held by the Successor Agency to defease/redeem, i.e. to pay back, prior outstanding bonds issued by the Redevelopment Agency and transferred to the Successor Agency. Approval of the Resolution is consistent with the Redevelopment Dissolution Law and the Oversight Board's fiduciary responsibility to both the holders of enforceable obligations and the affected taxing entities.

Requested Action:

1. Approve Resolution No. ___ attached hereto as Exhibit "A" entitled "A Resolution of the Board of the Successor Agency for the City of Santa Clara Redevelopment Agency Relating to Unspent Bond Proceeds and Making Related Findings and Declarations and Taking Related Actions."

Background:

Previously, the Redevelopment Agency issued several bonds to fund its activities. The following bond issuances are relevant to this item: (1) the Bayshore North Project 1999 Tax Allocation Bonds, Series A (the 1999 Series A Bonds); (2) the Bayshore North Project 1999 Tax Allocation Bonds, Series B (the 1999 Series B Bonds) (collectively the 1999 Bonds); (3) the Bayshore North Project 2003 Tax Allocation Bonds (the 2003 Bonds); and (4) the Bayshore North Project 2011 Tax Allocation Bonds (the 2011 Bonds).

On March 8, 2011, the Redevelopment Agency transferred all unspent bond proceeds from the above 1999 Series A Bonds and the 1999 Series B Bonds to the City of Santa Clara in the approximate amount of \$56.9 million. Subsequently, the City spent approximately \$40 million on the Tasman Parking Garage and is holding or has spent approximately \$11 million on other

projects. The City has returned and the Successor Agency currently holds approximately \$3.1 million of the 1999 Bonds.

In May 2011, the Redevelopment Agency sold the 2011 Bonds in the amount of \$31.4 million. Bond proceeds of \$25.0 million from the 2011 Bonds were subsequently transferred to the City by the RDA. After this transfer, the City transferred \$25 million in 2011 Bonds proceeds to the Successor Agency that the Successor Agency currently holds.

In summary, the Successor Agency currently holds approximately \$28.0 million in unspent bond proceeds. As discussed in more detail below, the purpose of this Agenda item is to ask the Oversight Board to direct the Successor Agency to use its available bond proceeds in a manner consistent with the Redevelopment Dissolution Law and the Oversight Board's fiduciary responsibility to both the holders of enforceable obligations (i.e., bondholders) and the affected taxing entities.

Analysis:

A. 1999 and 2003 Bonds

With the dissolution of the Redevelopment Agency, the Successor Agency became the issuer of the 1999 Series A Bonds and the 1999 Series B Bonds. As such, the Successor Agency has a duty to abide by the bond covenants and protect the interests of bondholders as holder of enforceable obligations. The 1999 Series A Bonds and the 1999 Series B Bonds are tax-exempt debt meaning that the interest paid to bondholders is non-taxable.

The Internal Revenue Code ("Code") imposes several requirements on issuers of tax-exempt bonds. These requirements must be met at issuance and throughout the term of the bonds. One of these requirements is that the issuer must have a reasonable expectation of spending 85% of the bond proceeds for qualified purposes within three years from the date of issuance. Failure to comply with this requirement may cause the bonds to become arbitrage bonds under section 148(a) of the Code or hedge bonds under section 149(g) of the Code, and necessitate the payment of an arbitrage penalty by the issuer to maintain the tax-exempt status of the bonds or even the loss of tax-exemption on the bonds with negative consequences to the bond holders. The IRS may also impose penalties. The continued existence of unspent bond proceeds from the 1999 Bonds (approximately 15 years after their issuance) is not typical.

In light of the above, the Oversight Board should use any available unspent bond proceeds to redeem/defeas the 1999 Bonds, i.e. pay back the bondholders consistent with the bond documents. The 1999 Bonds can be redeemed/defeased at any time. Such an action is considered the best way to minimize the risks discussed in the preceding paragraph because it is consistent with the bond covenants and minimizes the risk to the Successor Agency and the bondholders.

The attached Resolution directs the Successor Agency to immediately use all available unspent proceeds from the 1999 Bonds to redeem/defease the bonds.

To the extent that there are proceeds from the 2003 Bonds, similar issues apply and the Resolution provides for similar treatment.

B. 2011 Bonds

The Successor Agency is currently holding approximately \$25 million in unspent proceeds from the 2011 Bonds. The 2011 Bonds have ten year call protection meaning that they cannot be redeemed or paid off prior to June 1, 2021. However, similar to the 1999 Bonds, the best way to mitigate any tax risk associated with unspent bond proceeds is to redeem or defease the bonds as soon as possible. With respect to the 2011 Bonds, this date would be after June 1, 2021.

Until June 1, 2021, the unspent bond proceeds may be placed in an irrevocable escrow account with a trustee who can manage the unspent proceeds to maximize returns consistent with the bond documents and IRS rules. Such an escrow account will serve several important purposes: (1) it will show good faith efforts at compliance with regard to the tax-exempt status of the bonds by the Successor Agency; (2) it will safeguard principal; and (3) by allowing the trustee to maximize returns, it will minimize the interest obligations of the Successor Agency and thereby reduce the impact to the affected taxing entities by minimizing the amount of debt service to be paid by funds that would otherwise be distributed to the taxing entities.

The attached Resolution directs the Successor Agency to place all available 2011 Bonds unspent proceeds in an escrow account to be used by a trustee to legally redeem the 2011 Bonds as soon as possible in a manner consistent with the Successor Agency's obligations to the bondholders and the Oversight Board's fiduciary duties to the affected taxing entities.

As a byproduct, any defeasance/redemption of bonds will necessarily reduce Successor Agency liabilities, and, therefore, there will a concomitant savings to the affected taxing entities.

Conclusion:

For the reasons stated above, adoption of the attached Resolution by the Oversight Board is consistent with the Dissolution Law and the Oversight Board's fiduciary duties to both the holders of enforceable obligations and the affected taxing entities.

AGENDA REPORT

Date: September 15, 2014
To: Oversight Board
From: John V. Guthrie, Oversight Board Member
Subject: SUPPLEMENTAL – September 19, 2014 Oversight Board Meeting Agenda Item No. ____
 Consideration of Resolution Regarding Use of Unspent Bond Proceeds to Redeem/Defease Outstanding Bond Issues

This is a supplement to the September 12, 2014 report regarding the proposed Resolution Regarding Use of Unspent Bond Proceeds to Redeem/Defease Outstanding Bond Issues. If the Oversight Board approves the Resolution to defease/redeem the bonds, it will necessitate the addition of two lines to the ROPS to reflect the transfer of proceeds to the trustees. The two additional lines should be added to the ROPS as reflected below:

A	B	C	D	E	F	G	H	I	J	K
Item #	Project Name / Debt Obligation	Obligation Type	Contract/Agreement Execution Date	Contract/Agreement Termination Date	Payee	Description/Project Scope	Project Area	Total Outstanding Debt or Obligation	Retired	Funding Source – Bond Proceeds
33	Unspent 1999 Bond Proceeds	Bonds Issued On or Before 12/31/10	8/3/1999	6/1/2023	Trustee	Defease/Redeem Unspent Bond Proceeds	Bayshore North	\$11,113,156	N	\$11,113,156
34	Unspent 2011 Bond Proceeds	Bonds Issued After 12/31/10	5/11/2011	6/1/2026	Trustee	Defease/Redeem Unspent Bond Proceeds	Bayshore North	\$25,000,560	N	\$25,000,560

Also, the following notes should be added to the “Notes” tab of the ROPS:

Item #	Notes/Comments
33	Partial defeasance/redemption using unspent 1999 bond proceeds in the possession of the Successor Agency pursuant to OB Resolution No. _____. Contract/Agreement execution and end dates reflect the dates spanning both the Series A and B bond issuances.
34	Partial defeasance/redemption using unspent 2011 bond proceeds in the possession of the Successor Agency pursuant to OB Resolution No. _____. Contract/Agreement execution and end dates reflect the dates spanning both the Series A and B bond issuances.

Exhibit "D": September 16, 2014 letter of Charles Cardall to Director,
County Finance Agency

09/19/14

SB



ORRICK, HERRINGTON & SUTCLIFFE LLP
THE ORRICK BUILDING
405 HOWARD STREET
SAN FRANCISCO, CA 94105-2669
tel 415-773-5700
fax 415-773-5750
WWW.ORRICK.COM

September 16, 2014

Charles C. Cardall
(415) 773-5449
ccardall@orrick.com

Emily Harrison
Director, Finance Agency
County of Santa Clara
70 W. Hedding St., East Wing, 11th Fl.
San Jose, CA 95110

Re: Successor Agency for the City of Santa Clara Redevelopment Agency

Dear Ms. Harrison:

You have requested advice regarding the appropriate use under the federal tax law for unspent proceeds of outstanding tax-exempt bonds originally issued by the City of Santa Clara Redevelopment Agency (the "Redevelopment Agency") in 1999, 2003 and 2011 (respectively, the "1999 Bonds," the "2003 Bonds" and the "2011 Bonds"). We understand that a substantial amount of proceeds of the 1999 Bonds and the 2011 Bonds have not been spent on projects and have been returned to the Successor Agency for the City of Santa Clara Redevelopment Agency ("Successor Agency").¹ The most prudent use of the unspent proceeds of the 1999 Bonds is to redeem 1999 Bonds as described below. The most prudent use of the unspent proceeds of the 2011 Bonds is to defease the 2011 Bonds for redemption on their maturity dates or first optional call date as described below.

Tax-exempt bonds are not allowed to be "hedge bonds" or to "overburden" the bond market. The rules relating to hedge bonds generally require that the issuer of the bonds reasonably expect to spend at least 85% of the bond proceeds of any issue within three years. In this case, the Redevelopment Agency certified for each of the bond issues that it had this expectation. Even though the requirement is set forth in the Internal Revenue Code as an expectations test, the IRS uniformly takes the position that if 85% of the proceeds of a bond issue are not actually spent within three to five years any stated expectation of the issuer at the time the bonds were issued is not reasonable unless there are very clear and objective facts supporting the slower actual expenditure schedule and proving the reasonableness of the original expectations.

The rules relating to overburdening contain both an expectation and an actual facts requirement. The expectation requirement is similar to the hedge bond requirement. Tax-exempt bonds are not to be issued earlier than when the proceeds are reasonably needed for the projects to

¹ It is our understanding that the Successor Agency does not have any unspent proceeds from the 2003 Bonds; however, the treatment of such proceeds, if any, would be similar to our advice for the 1999 Bonds and the 2011 Bonds.



ORRICK

Emily Harrison
September 16, 2014
Page 2

be financed. Generally, that means the issuer reasonably expects to spend at least 85% of the proceeds within three years. The actual facts requirement relates to making use of unspent proceeds after a long delay in spending or to the extent there are no imminently anticipated projects that will use the proceeds. Like the hedge bond assertion, the IRS regularly asserts an overburdening violation when proceeds have been held for too long or it is unclear when the proceeds will actually be spent.

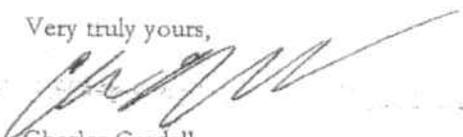
In a situation like this, the Successor Agency essentially has two choices for action. It can approach the IRS through their voluntary closing agreement program (VCAP), or it can use the unspent proceeds to redeem bonds as soon as possible. The VCAP program is not well-suited to resolving hedge bond and overburdening concerns. Therefore, redeeming the bonds is the most prudent option.

The 1999 bonds are currently callable. The Successor Agency should transfer the unspent 1999 Bond proceeds to the fiscal agent for the 1999 Bonds and instruct the fiscal agent to redeem 1999 Bonds. It is important to redeem bonds that have a weighted average maturity that is at least as long as the weighted average maturity of all of the 1999 Bonds currently outstanding. It is acceptable to simply redeem or defease the latest maturing bonds. Also, it is important to undertake the redemption or defeasance as soon as possible to show good faith in trying to resolve the potential tax violation.

The 2011 bonds are not currently callable. The Successor Agency should transfer the unspent 2011 Bond proceeds to the fiscal agent for the 2011 Bonds, establish an irrevocable defeasance escrow and instruct the fiscal agent to redeem 2011 Bonds on the earliest possible date. It is important to defease and redeem bonds that have a weighted average maturity that is at least as long as the weighted average maturity of all of the 2011 Bonds currently outstanding. It is acceptable to simply redeem or defease the latest maturing bonds. Also, it is important to undertake the redemption or defeasance as soon as possible to show good faith in trying to resolve the potential tax violation.

Consistent with the above, we strongly recommend that the above action be taken immediately.

Very truly yours,



Charles Cardall

Exhibit "E": November 17, 2014 Letter of Justyn Howard, Acting
Program Budget Manager, to Mr. Gary Ameling, Assistant City
Manager and Director of Finance



November 17, 2014

Mr. Gary Ameling, Assistant City Manager and Director of Finance
City of Santa Clara
1500 Warburton Avenue
Santa Clara, CA 95050

Dear Mr. Ameling:

Subject: Objection of Oversight Board Action

The City of Santa Clara Successor Agency (Agency) notified the California Department of Finance (Finance) of its September 19, 2014 Oversight Board (OB) Resolution on October 1, 2014. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance has completed its review of the OB action.

Based on our review and application of the law, OB Resolution No. 2014-03 relating to unspent bond proceeds, is not approved. It is our understanding the OB has determined that consistent with their fiduciary responsibilities to the taxing entities, bond proceeds currently in possession of the Agency should be used to defease or partially defease the bonds as soon as allowable. The OB believes these actions will minimize to the maximum extent feasible the risks associated with the delayed expenditure of bond proceeds and to maximize the return of funds to the taxing entities.

However, it is unclear under what statute authorizes the OB to direct the Agency to take these actions. Generally, the Agency is responsible for winding down their affairs and the OB oversees this process. HSC section 34181 (e) does authorize the OB to direct the Agency to determine whether any contracts, agreements, or other arrangements should be terminated or renegotiated to reduce liabilities and increase net revenues to the taxing entities. The Agency is then required to present their proposed termination or amendments to the OB for approval.

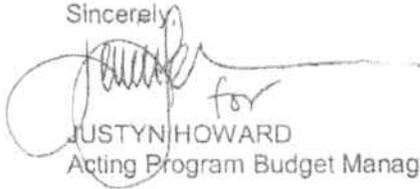
The actions taken through OB Resolution No. 2014-03 did not include the Agency in this process. Therefore, as authorized by HSC section 34179 (h), Finance is returning your OB action to the board for reconsideration.

This is our determination with respect to the OB action taken.

Mr. Gary Ameling
November 17, 2014
Page 2

Please direct inquiries to Wendy Griffe, Supervisor, or Jenny DeAngelis, Lead Analyst at
(916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read "Justyn Howard", with a long horizontal flourish extending to the right. The signature is written over the word "for" and the name "JUSTYN HOWARD".

for
JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Tamera Haas, Assistant Director of Finance, City of Santa Clara
Ms. Emily Harrison, Finance Agency Director, Santa Clara County
California State Controller's Office

Exhibit "F": September 29, 2014 Letter of Julio Fuentes, City Manager,
to Justyn Howard, Department of Finance

S
A
N
T
A
C
L
A
R
A
C
I
T
Y



City Manager's Office

September 26, 2014

Justyn Howard, Assistant Program Budget Manager
Department of Finance
State of California
915 L Street
Sacramento, CA 95814-3706

Re: Oversight Board Resolution No. 2014-03

Dear Mr. *Howard* Howard:

This letter is to object to the action of the Oversight Board of the City of Santa Clara (the "Oversight Board") in ordering the staff of the Successor Agency to the Santa Clara Redevelopment Agency (the "Successor Agency") to dispose of bond proceeds derived from two bond issuances by the former redevelopment agency: a 1999 bond issuance (the "1999 Bonds") and a 2011 issuance (the "2011 Bonds") and to request that the Department of Finance (the "DOF") disapprove Oversight Board Resolution No. 2014-03.

In its meeting of September 19, 2014, the Oversight Board summarily ordered Successor Agency staff to transmit the proceeds of the 2011 Bonds to the fiscal agent to be held in an irrevocable escrow account and used to legally defease and redeem the bonds and directed that the proceeds be invested in a U.S. Treasury bond with a maturity date around the call date for the 2011 Bonds. The Oversight Board also ordered that the unexpended proceeds from the 1999 bonds be transmitted to the fiscal agent and the fiscal agent be directed to call or redeem as many of the 1999 Bonds as possible. The Oversight Board ordered the payments related to both the 2011 Bonds and the 1999 Bonds be placed on ROPS 14-15B.

The Oversight Board last met in February 2014 to approve ROPS 14-15A. In the succeeding seven months, no member of the Oversight Board or of the County of Santa Clara contacted the Successor Agency to discuss the disposition or use of the 1999 Bonds or the 2011 Bonds. In the afternoon of Thursday, September 11, 2014, just six working days before the planned Oversight Board meeting, counsel for the Oversight Board forwarded an agenda item to the Successor Agency, originating from one of the County's Oversight Board appointees, that called for the call/redemption of the 1999 Bonds and the disposal of the 2011 Bond proceeds. The agenda item request was later amended on September 15, 2014 with a request to put this disposal of the bond proceeds on the ROPS 14-15B and on September 18, 2014 the Successor Agency received a pro forma developed by the Oversight Board member purportedly

City of Santa Clara
1500 Werburton Avenue
Santa Clara, CA 95050
(408) 615-2210
FAX (408) 241-6771
www.santaciaraca.gov

showing how the affected taxing agencies would benefit from the proposed Oversight Board action (a proforma that the Oversight Board member admitted at the meeting contained errors).

In attempting to perform its duties to the taxing agencies to maximize the value of the Successor Agency assets, the Successor Agency requested time to perform its due diligence and develop a comprehensive defeasance plan for the 2011 Bonds to present to the Successor Agency governing board and the Oversight Board. This request was denied by the Oversight Board. The Successor Agency also objected to the call/redemption of the 1999 Bonds based on the clear intent of the legislature in AB 1484 that once a successor agency had obtained a finding of completion, a successor agency had the right to use pre-2011 bonds for the purposes for which they were issued.

The placement of the bond payments on the ROPS 14-15B is premature since there is no enforceable obligation to support the payments. The Oversight Board attempted to create a new enforceable obligation out of thin air. There is no statutory authority that allows an Oversight Board to create an enforceable obligation, order it to be placed on a ROPS, and attempt to bind the successor agency without the concurrence of the successor agency governing board. Health and Safety Code Section 34181(e) specifically provides that if an oversight board determines that a contract should be terminated or renegotiated that the oversight board shall direct the successor agency to present proposed termination or amendment agreement to the oversight board for its approval. The statute does not authorize an oversight board to act in the stead of a successor agency. By ordering the Successor Agency to place a new enforceable obligation on ROPS 14-15B, the Oversight Board acted outside of its statutory authority and overstepped its bounds. If DOF elects to disapprove the Oversight Board action in Resolution No. 2014-03, the Successor Agency will (unless the Dissolution Act is modified as a result of bills currently being considered by the Governor affecting the use of 2011 bonds) construe the Oversight Board action as direction to Successor Agency staff to develop a defeasance plan for the 2011 Bonds and, with Successor Agency governing board concurrence, will return to the Oversight Board for approval of the plan and its related agreements. ✕

The required call/redemption of the 1999 Bonds is another attempt of the Oversight Board to act outside of its authority and to skirt the statutory treatment of pre-2011 bonds. Health and Safety Code Section 34191.4(c)(1) states: "Bonds proceeds derived from bonds issued on or before December 31, 2010 *shall be used* for the purposes for which the bonds were sold". (Emphasis added.) The legislature clearly granted the opportunity, if not the requirement, for the Successor Agency to use the proceeds of the 1999 Bonds for the purposes for which the bonds were sold. But for the Dissolution Act, the former redevelopment agency was moving forward with the expenditure of those bonds. The Successor Agency has a list of designated projects that were to receive funding from the 1999 Bond proceeds and the Successor Agency fully intended to expend the 1999 Bond proceeds on those projects once the

Oversight Board Resolution No. 2014-03
September 29, 2014
Page 3

Successor Agency obtains its finding of completion. The Oversight Board has no authority to disregard the clear legislative authorization that pre-2011 bonds may be expended by a successor agency or purposes for which they were intended.

For the reasons enumerated above, the Successor Agency requests that the DOF disapprove the action taken by the Oversight Board in Resolution No. 2014-03. The Oversight Board has no statutory authority to unilaterally create an enforceable obligation to place on ROPS 14-15B and the Oversight Board cannot contravene the express provisions of Health and Safety Code Section 34191.4(c)(1), which grants the Successor Agency the authority to expend the proceeds of the 1999 Bonds.

We would be happy to answer any questions on this matter.

Sincerely,



Julio J. Fuentes
City Manager
Executive Officer to Successor Agency

Exhibit "G": September 17, 2014 City of Santa Clara 2011 Debt Service
Schedule Prepared by John Guthrie

**City of Santa Clara
2011 Debt Service Schedule**

Period Ending	Principal	Serial Interest	Compounded Interest (CAB)	Total Debt Service	Remaining Outstanding Principal			Escrow fund if principal isn't spent			Debt Service Reserve	
					Serial	CABs	Total	Net Bond proceeds	interest @ 2%	outstanding Balance	Int at 2%	At 2% Balance
1 12/1/11	0	350,141		350,141	11,440,000	19,971,295	31,411,295	30,465,037	250,000	25,000,000	27,678	2,767,806
2 6/1/12	125,000	326,556		451,556	11,315,000	19,971,295	31,286,295		252,500	25,502,500	27,955	2,823,439
3 12/1/12		325,306		325,306	11,315,000	19,971,295	31,286,295		255,025	25,757,525	28,234	2,851,673
4 6/1/13		325,306		325,306	11,315,000	19,971,295	31,286,295		257,575	26,015,100	28,517	2,880,190
5 12/1/13		325,306		325,306	11,315,000	19,971,295	31,286,295		260,151	26,275,251	28,802	2,908,992
6 6/1/14	1,022,311	325,306	142,689	1,490,306	10,292,689	18,948,984	29,241,673		262,753	26,538,004	29,090	2,938,082
	1,147,311	1,977,922	142,689	3,267,922	10,292,689	18,948,984	29,241,673					

Note: These costs are expired regardless which option is pursued.

Future incremental debt service:

7 12/1/14	0	325,306		325,306	10,292,689	18,948,984	29,241,673		265,380	26,803,384	29,381	2,967,463
8 6/1/15	1,199,716	325,306	250,285	1,775,306	10,292,689	17,749,269	28,041,958		268,034	27,071,418	29,675	2,997,137
9 12/1/15	0	325,306		325,306	10,292,689	17,749,269	28,041,958		270,714	27,342,132	29,971	3,027,109
10 6/1/16	1,109,651	325,306	320,349	1,755,306	10,292,689	16,639,617	26,932,307		273,421	27,615,553	30,271	3,057,380
11 12/1/16	0	325,306		325,306	10,292,689	16,639,617	26,932,307		276,156	27,891,709	30,574	3,087,954
12 6/1/17	1,646,845	325,306	638,155	2,610,306	10,292,689	14,992,772	25,285,461		278,917	28,170,626	30,880	3,118,833
13 12/1/17		325,306		325,306	10,292,689	14,992,772	25,285,461		281,706	28,452,332	31,188	3,150,021
14 6/1/18	1,401,067	325,306	703,933	2,430,306	10,292,689	13,591,705	23,884,394		284,523	28,736,855	31,500	3,181,522
15 12/1/18		325,306		325,306	10,292,689	13,591,705	23,884,394		287,369	29,024,224	31,815	3,213,337
16 6/1/19	1,178,504	325,306	746,496	2,250,306	10,292,689	12,413,201	22,705,890		290,242	29,314,466	32,133	3,245,470
17 12/1/19		325,306		325,306	10,292,689	12,413,201	22,705,890		293,145	29,607,611	32,455	3,277,925
18 6/1/20	978,962	325,306	766,038	2,070,306	10,292,689	11,434,238	21,726,928		296,076	29,903,687	32,779	3,310,704
19 12/1/20		325,306		325,306	10,292,689	11,434,238	21,726,928		299,037	30,202,724	33,107	3,343,811
20 6/1/21	790,975	325,306	749,025	1,865,306	10,292,689	10,643,264	20,935,953		302,027	30,504,751	33,438	3,377,249
paid to date 6/21	8,305,721	4,554,288	4,174,279	17,034,288	10,292,689	10,643,264	20,935,953					

Remaining payoff 6/21:

Remaining principal	20,935,953
CAB Interest @6/21	13,708,985

Option 1 Call O/s Bonds using preserved escrow principal

Total Incremental Payout (paid debt service plus rem. payoff)	51,679,225
Less Escrow fund principal and debt service reserve @6/1/21	(33,882,000)
Net incremental payout	17,797,225

31%

Option 2 Spend principal pay bonds at maturity

21 12/1/21		325,306		325,306								
22 6/1/22	614,848	325,306	720,152	1,660,306								
23 12/1/22		325,306		325,306								
24 6/1/23	471,893	325,306	653,108	1,450,306								
25 12/1/23		325,306		325,306								
26 6/1/24	4,855,946	325,306	7,904,054	13,085,306								
27 12/1/24		325,306		325,306								
28 6/1/25	4,306,848	325,306	8,198,153	12,830,307								
29 12/1/25		325,306		325,306								
30 6/1/26	11,708,731	325,306	861,269	12,895,306								
Sub total				43,548,063								

Total Incremental Debt Serv/to full bond maturity	60,582,350
Less Debt service reserve @6/1/26	(3,730,584)
Net Incremental debt payout	56,851,766

100%

Savings from defeasance	39,054,541
--------------------------------	-------------------

69%