July 23, 2019

Mr. Oscar J. Garcia, Auditor-Controller/Treasurer-Tax Collector
Fresno County
P.O. Box 1247
Fresno, CA 93715

Dear Mr. Garcia:

Subject: Request for a Loan to the Mendota Designated Local Authority

Pursuant to Health and Safety code section 34183 (c), the California Department of Finance (Finance) is requesting the Fresno County Treasurer (Treasurer) to loan funds to the Mendota Designated Local Authority (DLA) in order for the DLA to make payments on its approved enforceable obligations listed on the Recognized Obligation Payment Schedule (ROPS). Specifically, a loan is necessary on and after January 1, 2020 for the DLA to pay for administrative costs in order to ensure that payments can be processed for its enforceable obligations. Specifically, Finance requests the Treasurer to consider loaning $30,000, an amount expected to be sufficient to cover the DLA's administrative costs for the 2020 calendar year.

Background

By way of background, with the enactment of Dissolution Law in June 2011, cities and counties were required to decide whether to elect to become the Successor Agency to their redevelopment agencies. The City of Mendota decided not to become the Successor Agency, leaving the task to a Governor-appointed board of volunteers – the DLA. While the DLA inherited a relatively small set of obligations from the former redevelopment agency (RDA), they also inherited the former RDA's 1994 Tax Allocation Bonds (Bonds) and without sufficient revenue to pay for all of these debts. For example, in the 2018-2019 fiscal year, the DLA received $937,949 in property tax revenue but needed $2,579,997 to pay all of the amounts due that year. Year to year, all available property tax revenue is used to pay debt service on the Bonds, leaving none for administrative costs or for the other enforceable obligations.

Determination of Necessity

Finance has determined that there currently is insufficient revenue flowing to the DLA to pay for the enforceable obligations, let alone to cover staffing needs. While Finance initially assisted the DLA by funding a consultant to get the DLA operational, this financial assistance will end on December 31, 2019. Without funds to hire staff, the DLA's enforceable obligations will go unpaid, the Bonds will be in default, and the DLA will never be in a position to terminate.

The critical need for a loan relates to the continued payment of the Bonds.[1] Should the Bonds go unpaid, the Bonds Trustee will be obligated to pursue all remedies against the DLA and any other entity it deems may be liable for the failure to pay debt service on the bonds. Such litigation could be expensive and take several years, further increasing the debt load and further extending the time by which the DLA could terminate. Any increase in the debt load and any increase to the life of the DLA necessarily cuts into any amount of residual property funds that could ultimately flow to the affected taxing entities, including to Fresno County.

Loan Specifics

According to the DLA's consultant, Kosmont Companies, the annual costs for administrative services is estimated to be $30,000. While this letter requests a loan amount to cover one year of staffing needs, it should be noted that the DLA will need assistance for several years to come. Specifically, the DLA will need staffing assistance until there is enough property tax revenue available to service the bond debt and pay for some administrative costs, or alternatively, until the DLA can terminate. Once the DLA starts receiving enough property tax revenues (due to an increase of property tax revenues and/or reduction in debt service amounts) to cover the debt service, the DLA could be in a position to start making payments on a loan.

Once a loan is approved by all parties, the loan will be a new enforceable obligation of the DLA payable pursuant to the ROPS process. While it seems unlikely that there will be sufficient revenue to begin repayment on a loan within the first few years of the loan's existence, the loan can be structured to accrue interest. Since the last payment for Bonds is currently scheduled for August 2024, more funds will be available thereafter to use toward repayment on the loan and for payment of administrative costs. Further, the DLA cannot legally terminate until the loan is fully repaid to the County.

Alternative Option – Election as Successor Agency

In lieu of providing a loan to the DLA, the County has the option of taking over as a Successor Agency to the former RDA. Dissolution Law envisioned DLAs to be a placeholder entity until a local agency stepped in to be the Successor Agency. The County is one type of local agency authorized to be the Successor Agency. (See HSC section 34173 (d) (2).) This election can become effective upon the adoption of a resolution by the Board of Supervisors for the County to be the Successor Agency and submission of it to your office – the County Auditor-Controller.

As the Successor Agency, the County will be required to handle the administrative tasks of winding down the former RDA. Specifically, the County, as Successor Agency, would be responsible for processing an annual ROPS, distributing the approved payments to the appropriate payees, and working with Finance on receiving approval for a Last and Final ROPS (which is intended to reduce the annual workload). As the Successor Agency, the County will be entitled to administrative costs pursuant to HSC 34171 (b) and its liability will be limited to property tax revenues it would receive pursuant to Dissolution Law. However, property tax revenues for administrative costs will continue to be subordinate to property tax revenues needed to pay debt service on the Bonds until there are sufficient revenues to cover both.

---

[1] While there are some enforceable obligations currently going unpaid which could also qualify for a loan request under HSC section 34183(c), the delayed payment of these other debts does not have the same negative effect as the failure to keep payments on the Bonds current. As such, Finance's request focuses on administrative costs necessary to pay debt service on the Bonds.

Thank you for your consideration of this matter. Should you have any questions, please contact Chikako Takagi-Galamba, Manager, at (916) 322-2985.

Sincerely,

JENNIFER WHITAKER
Program Budget Manager

cc: Mr. Mario Cabrera, Accounting Financial Manager, Fresno County
Mr. Peter Wall, Senior Deputy County Counsel, Fresno County
Mr. Craig Mellon, Chair, Mendota Designated Local Authority
Ms. Joy Otsuki, Counsel, Mendota Designated Local Authority
Mr. Mark Persico, Chief Operating Officer, Kosmont Companies