

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY  
OF THE CITY OF SANTA BARBARA**

**OVERSIGHT BOARD MINUTES**

**Thursday, July 31, 2013 – 9:00 a.m. to 11:00 a.m.  
Marine Center Building, Waterfront Classroom  
125 Harbor Way, Santa Barbara CA 93109**

**MEMBERS:**

<u>  X  </u> <b>Brian Fahnestock, Chair</b> , California Community Colleges	<u>  X  </u> <b>Renee Bahl</b> , Santa Barbara County Flood Control and Water Conservation District
<u>  X  </u> <b>Carolle Van Sande, Vice Chair</b> , Member of Public	<u>  X  </u> <b>Meg Jetté</b> , Santa Barbara County Education Office
<u>  X  </u> <b>Chandra Wallar</b> , County of Santa Barbara	<u>  X  </u> <b>Liz Limón</b> , Former Agency Employee Representative, City of Santa Barbara
<u>  X  </u> <b>Jim Armstrong</b> , City of Santa Barbara	

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**STAFF:**

  X   **Mark Manion**, Oversight Board Counsel

  X   **Stephen Wiley**, City Attorney, City of Santa Barbara

  X   **Sarah Knecht**, Assistant City Attorney, City of Santa Barbara

  X   **Brian J. Bosse**, Waterfront Business Manager, City of Santa Barbara

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**ORDER OF BUSINESS**

- I. **CALL TO ORDER:** 9:00 a.m.
- II. **CHANGES TO THE AGENDA:** Move VI. C to A and E to B
- III. **PUBLIC COMMENT:** None
- IV. **APPROVAL OF MINUTES**
  - A. June 6, 2013 Oversight Board Meeting  
Motion to Approve: Jetté, Armstrong seconds. Approved: 6-0 (Wallar absent)
- V. **CONSENT AGENDA:** No items
- VI. **ITEMS SCHEDULED FOR ACTION/DISCUSSION**
  - A. Update on Legislation (Mark Manion). See sections D – E.
  - B. Status of Long Range Property Management Plans. See sections D – E.
  - C. That the Oversight Board Adopt A Resolution Of The Oversight Board Of The Successor Agency To The Redevelopment Agency Of The City Of Santa Barbara Directing the Successor Agency to the Redevelopment Agency of the City of Santa Barbara to Implement the Long Range Property Management Plan for the

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Santa Barbara Children's Museum Property and Direct the Transfer of the Property to the City of Santa Barbara.

Public Comment

- 1) Sheila Cushman, Executive Director of SBCM: Expressed thanks on behalf of the entire SBCM Board of Directors, to the OB for their favorable decision last meeting.

End Public Comment

Knecht explained that at the last meeting the OB approved the LRPMP for submission to the DOF. The process for property in the LRPMP is 1) the OB approves it, 2) the DOF approves it and 3) the OB approves implementation of what is in the LRPMP, and the plan becomes the charter for the property. Staff received an approval letter specifically for the SBCM parcels from the DOF. Staff asked the OB to approve the implementation of the plan and direct the transfer of the property to the City. At the last meeting the OB did a resolution to approve the LRPMP and this is a resolution to transfer the property.

Casey read the paragraph from the DOF letter stating that the OB implementation of the approved LRPMP should be submitted to the DOF for approval. The DOF letter specifically addressed SBCM; however, all properties once they get their plans approved by the DOF will have to come back to the OB for a similar resolution.

Wallar directed Bosse to email the approval letter from the DOF dated July 15, 2013 to the OB.

Bahl moved to approve the resolution, Armstrong seconds. **Approved 6 - 1** (Wallar opposes).

- D. That the Oversight Board Adopt A Resolution Of The Oversight Board Of The Successor Agency To The Redevelopment Agency Of The City Of Santa Barbara Approving the Long Range Property Management Plan for the Landlord's Reversionary Interest in the Paseo Nuevo Leasehold.

Knecht recapped that the RDA owns the underlying property of PN which is long term leased until 2065 to the mall owners, Macy's and Nordstrom. As part of that development the RDA agreed to pay the portion of the parking and business improvement assessment (PBIA) that is over the PN's obligation of \$100,000, which averages \$77,000 per year.

At the last meeting the OB discussed in depth the valuation of the revisionary interest. However, 1484 requires that LRPMP look at contracts encumbering the property and determine if they are enforceable obligations. According to 1484, contracts are enforceable obligations. The RDA, now the SA, is bound to honor those obligations until 2065 but will not have the authority to extend the lease term. The PBIA will be paid either by the tax increment fund or the City and will need to be added to the ROPS.

The OB's discretion lies in the decision to approve, or not, or to change the LRPMP, which then creates the charter for the property.

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Manion added the OB could sell the property with the ongoing obligations but it has no value. The OB may be able to include in the LRPMP a provision that says PN will be subject to this enforceable obligation and the SA will continue to own it for the duration of the ground lease. At the end of the ground lease, if PN is sold the proceeds shall then be transferred to the various taxing entities.

Wiley stated that the RDA is a corporation and the corporate identity would last as long as City Council wanted it to last. The designation of the project area, the CCRP, which is interrelated to tax increment, was set to expire in 2015. The old Redevelopment Act had a statute saying that the City was required to succeed the RDA obligation and assets when the RDAs ended.

Waller asked if the taxing entities could put together a JPA to purchase the property.

Knecht explained it is not contemplated anywhere in the statute and it is separate from the LRPMP. The taxing entities would need make an offer to the SA and find a way to continue to provide parking and pay the ongoing obligations.

Allan Kotin, contracted by staff, an economist who specializes in private/public real estate ventures, explained why PN is worth nothing now but potentially hundreds of millions in the future as detailed in his memo dated July 29, 2013. Originally, the contemplated lease was a more traditional ground lease; however, before the completion of PN, the RDA had two shortfalls, the first, \$7.8 million, which the developer agreed to pay if the RDA relieved their minimum rent. The second shortfall was \$2 million which the developer agreed to loan at 10% interest annually, and was to be paid out of participation rent. Over the years, the RDA did not pay down the loan, as the threshold above which participation rent was paid was subject to two upward adjustments, 1) general inflation and 2) unanticipated capital expenditures. The net result is participation rent is essentially illusory due to the combination of the rising threshold and accruing interest on the \$2 million. There is no reason to believe participation rent will be paid over the term of this lease.

If someone were to buy PN, two calculations need to be made. First, what is the property likely to be worth in 2065? Second, what kind of return would someone want if they were going to purchase it today but not get anything for 52 years and pay on average \$77,000 per year? This is a land investment and an investor will want 11% return. With a \$3 million investment, at the end of 52 years it will be worth between \$300-500 million. If the City were to buy, they would need a 5% return and in theory could afford to pay \$2 million. This would be a difficult investment to get money from because of the PBI A obligation. The City and RDA were willing to take on this obligation in anticipation that they would own the property in 2065, as the old Redevelopment Act statute stated that the City succeeds all the obligations and assets if the RDA ends.

Van Sande motioned to table this item to give the OB more time to evaluate the information.

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Wallar seconds with an amendment to give questions to staff in a timely manner.

**Approved 7 - 0**

Questions

Directed to Manion:

- How can a JPA be formed?

Directed to Staff:

- Does city financial staff, Bob Samario, support Kotin's valuation?
- Provide formula/calculation for determining annual PBIA and what was paid.
- Provide agreements with implementing language that says PBIA is the responsibility of the RDA.
- Does the old Redevelopment Act statute still stand that states the City succeeds all obligations and assets if the RDA ends. What happens in 2065?

Bosse asked the OB to give a list of further questions to staff promptly.

- E. Bond Proceeds Presentation, Discussion, and Receive Oversight Board Direction to Include Approved Projects on ROPS 13-14B.

Casey stated that under 1484, if a SA receives a finding of completion it is allowed to spend bond proceeds for the purposes of which the bonds were issued if they were issued prior to January 1, 2011. Staff received letters from the DOF specifically stating that the City is now authorized to expend bond proceeds for the purposes of which they were issued. The bond projects need to be placed on the next ROPS to be approved by the OB and submitted to the DOF.

Fahnestock was surprised that the 1484 law was not discussed in prior OB meetings. He did not remember this "carrot" of being able to bring back new items that were not prior obligations.

Manion replied the "carrot" was in the original bill, 34177 (i) and states "bond proceeds derived from bonds issued before or on December 31, 2010, **shall** be used for the purpose for which bonds were sold unless the purpose(s) can no longer be achieved in which case the proceeds may be used to defease the bonds." The updated legislation included some additional language consistent with that. The debt service is on the ROPS and the bonds have been issued and are being paid. If there are proceeds, and the purpose is identified in the bond issuance, then the SA with OB approval can then enter into an enforceable obligation that would be paid for by bond proceeds. OB discretion is in the determination of which projects are within the bond documents.

Knecht added that the new provision in 1484, allows the use of unencumbered bond proceeds once the finding of completion is made notwithstanding section 34177.3, which prohibits making new contracts and new enforceable obligations.

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Bosse did not know of any documents stating that bond proceeds must be expended during the life of the project area. Even after expiration of the project area tax increment money would continue to pay the debt service on those bonds. There is a timeline that expires for a project area but there is a different timeline for financing that generally expires 10 years after the date the RDA was set to shut down. We have until 2025 to pay off bonds; however, new debt cannot be created and there is a cap on the tax increments that could be earned.

Waller asked that the OB authorize Fahnestock as chair to send a letter to the DOF clarifying what discretion the OB has on whether a project moves forward or to defease bonds.

A lengthy discussion regarding OB discretion and purpose ensued.

Casey explained that the language in the prospectus to the bond holders was broad. It stated the proceeds of the 2001 and 2003 bonds will be used to continue the redevelopment activities within the projects' area including one or more of the following and it listed example projects. As the project list developed over the years, City Council acting as the RDA was flexible on the use of bond proceeds as long as they were eligible projects under redevelopment law and done within the project area. Each project presented in the staff report went through a blight test, and have resolutions. Some projects are specifically listed as examples, some are not. All projects were included in the 5 year implementation plan, and have been worked on prior to the dissolution of the RDA.

**Bath Street Pocket Park** - Included in the mission creek flood control project and mentioned specifically in the 2001 bond as an example.

**Cabrillo Pavilion Bath House** – The renovation is not specifically listed as an example project; however public facilities on the waterfront are identified as key priorities of the RDA. Two different firms were hired prior to the dissolution of the RDA to look at the structural integrity and identify physical enhancements that need to be done. The project cost is estimated at \$10.3 million but staff is recommending \$9.1 million. The city would fundraise or fund the additional cost. All the projects were priorities before the expiration of the RDA and staff thought this project has more ability to raise private funds. Having a quality facility that is able to host events increases the activity in the project area and benefits us all by improving the economic vitality of the area. The Cabrillo Bathhouse and Pavilion may be eligible for the national register and is currently a city landmark.

Jill Zachary, City of Santa Barbara Parks & Recreation Dept., added that the preliminary concepts for the building were developed and on the cusp of going to the HLC. The exterior of the building would be preserved to meet historical criteria and the building system from 1924/26 would undergo interior improvements

**911 Call Center** – The 911 call center is not specifically listed as an example but needs to be moved from the basement of the Police Department (PD) building.

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The PD building needs to be replaced as it will be inoperable after an earthquake and the first step is to move the 911 call center. A portion of the second floor office of the Granada garage has been identified as the new location and preliminary designs were made prior to the dissolution of the RDA. Use of public facilities is an appropriate use of RDA funds.

**West Downtown Lighting** - This is for the last phases of the west downtown improvement process. The first phase of the 3 phase lighting project for the west downtown area was implemented prior to the dissolution of the RDA. \$750,000 has already been spent on the design. This is listed as an example project in the 2003 bond document and was in the 5 year implementation plan.

**Ensemble/Victoria Hall** - The OB approved the restatement. The letter back from the DOF stated that they expect the OB will use bond proceeds to pay for the project. This was listed in the 2001 bond document.

**West Beach Pedestrian Improvements** - This is a leftover litigation outstanding with a possible hit of \$175,000. The outcome of the litigation is unknown. This item has been in ROPS as well as listed in the 2003 bond document.

Public Comment:

Ed Cavazos: Neighborhood Advisory Council, Supports Bond Proceeds. Expressed support for the projects, in particular the west downtown lighting and Bath Street Pocket Park which would improve neighborhood health and safety.

Lesley Wiscomb, Chairman of the Parks and Recreation Commission of the City of Santa Barbara, supports Bond Proceeds. Expressed support for Bath Street Pocket Park and the Cabrillo Pavilion Bathhouse. Renovation of the Bathhouse would benefit locals, visitors as well as the general fund revenues.

Helene Schneider, Mayor of the City of SB, supports Bond Proceeds: Expressed support for all bond proceeds projects. This is the priority list that full council unanimously approved. None of the items are new and all are priorities. Some projects are directly listed as examples but others, like the Cabrillo Bathhouse, have been actively pursued and money spent prior to 2011. The west downtown lighting in particular should be finished in its entirety which includes the pocket park.

Sharon Burne, west downtown resident, supports Bond Proceeds. Expressed support for the West Downtown Lighting as it will increase neighborhood safety.  
End Public Comment.

Wallar motioned to approve and move forward to the state the following projects:

Bath Street pocket park - 2001  
West Downtown Lighting, phases 2 and 3 - 2003  
Ensemble Theater/Victoria Hall - 2001  
West Beach Pedestrian Retention – 2001

The projects not included in the motion need additional information requested by the OB.

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Van Sande seconds with amendment that funds come from associated bonds.

**Approved 7 – 0**

Directions to Manion:

- Request opinion from the DOF on whether the OB has any discretion with regard to use of excess bond proceeds.
- Draft letter to the DOF for Fahnestock to review seeking clarification on what discretion the OB has on bond proceeds.

Additional Information Requested from Staff:

- Are plans to the Cabrillo Pavilion Bathhouse up to Secretary of Interior standards?
- Would Cabrillo Pavilion Bathhouse need to go through the 106 process as part of the review for the National Register?
- Provide documentation and more detail on the findings of how Cabrillo Pavilion Bathhouse reduces blight.
- Provide City Council resolutions for Cabrillo Pavilion Bathhouse and 911 Call Center.

**VII. ADJOURNMENT: 11:00 a.m.**

Future Meeting(s):

Early September

End September