

**CITY OF LODI
INFORMAL INFORMATIONAL MEETING
"SHIRTSLEEVE" SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MAY 6, 2008**

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, May 6, 2008, commencing at 7:01 a.m.

A. ROLL CALL

Present: Council Members – Hitchcock, Hansen, Johnson, Katzakian, and Mayor Mounce

Absent: Council Members – None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. TOPIC(S)

B-1 "Overview of the Mechanics of Tax Increment Allocation – Statement of Indebtedness"

City Manager King provided an overview of the mechanics of tax increment allocation and statement of indebtedness. Specific topics of discussion included City's exposure for indebtedness, soft debt versus hard debt, excerpts from Health and Safety Code Section 33675, the requirement to file a statement of indebtedness and reconciliation statement, San Joaquin standard form for a statement of indebtedness, samples from Stockton, Tracy, Manteca, and Ripon, examples of soft redevelopment debt, joint cooperation agreement, some cities entering into bonds to further protect against State taking local government money in lieu of incurring soft debt, statutory limits on bond debt, and general application of how redevelopment may be applied in Lodi, including a series of smaller capital improvement projects rather than a single large project.

In response to Mayor Mounce, Mr. King stated with respect to interest rates for bonds and loans for cities, typically a secure bond will be more aggressive in order to secure the lowest rate possible. He stated the major difference is subordination language where in some cases debt may not be collected.

In response to Council Member Hitchcock, Mr. King confirmed that Stockton uses the Community Development Block Grant (CDBG) allocation to show debt, but it will not actually collect the debt. He stated he is unsure of why interest is not being charged, but it is most likely that the debt itself will never be repaid.

In response to Mayor Mounce, Mr. King stated that, when and if Stockton pays interest on the CDBG allocation which it will likely not do, the interest will go to the general fund because the spending of CDBG money is work performed by the city on behalf of the agency. He stated it will most likely not be paid because it is in the city's and agency's best interest not to do so.

In response to Mayor Mounce, Deputy City Manager Jim Krueger stated he is unsure if Stockton is carrying the interest as an account receivable on the balance sheet but that is most likely.

In response to Mayor Mounce, Mr. King confirmed that Manteca has approximately \$321 million in soft debt, which will likely not be paid back.

In response to Mayor Mounce, City Attorney Schwabauer stated the Constitution specifically prohibits the State from interfering with any contractual obligation of a city. Mr. Schwabauer stated therefore the State would be prohibited from taking bond money as hard debt due to contractual obligations with the bonding agencies. He stated the State would also have a difficult argument with respect to soft debt incurred under a contractual obligation between a city and agency.

In response to Council Member Johnson, Mr. Schwabauer stated the County collects the \$1.1 million as tax increment, it is then obligated to pay the agency that \$1.1 million, and the agency then repays debt or more likely recycles that amount for the next year's usage.

In response to Council Member Hitchcock, Mr. King stated typically the amount for hard debt that is allowed is no more than 80% of tax increment for that specific year with respect to redevelopment bonds. He stated generally cities take much less than that in order to keep flexibility for larger capital projects.

In response to Council Member Hitchcock, Mr. King and Mr. Schwabauer stated that there is not an actual transference of CDBG funds into the general fund. They stated that, because the purposes of Department of Housing and Urban Development guidelines and redevelopment coincide, CDBG funds may be credited for redevelopment debt because the funds were expended in a manner that benefited the city and agency. They stated an example of this may be sidewalk or light improvements in the project area.

In response to Mayor Mounce, Mr. King stated obtaining bonds for redevelopment is based on the ability to collect tax increment and not the City's financial health. Mr. King provided the Lodi Memorial Hospital bonds as an example.

In response to Council Member Johnson, Mr. King stated the school district incurring debt through redevelopment pass-through with the City is neutral to the City because the funds would be paid regardless over a 45-year period instead of a single payment pursuant to AB 1290 pass-through requirements. Mr. King stated he does not believe the school district scenario is a popular vehicle, but it is an example of bonded debt.

In response to Mayor Mounce, Mr. King stated once the redevelopment project area is formed, the general process for the school district would remain the same in that the money is collected by the County, then goes to the State, who in turn sends it to the school district. Mr. King stated the school district and City would benefit because there may be improvements to schools within the project area.

Discussion ensued between Council Member Hitchcock, Mr. King, and Mr. Schwabauer regarding the 27% allocation for school district and AB 1290 legislation, which specifically sets forth the percentage received by schools based on a formula and the method by which it may be collected.

In response to Council Member Hitchcock, Mr. King stated 80% of the potential tax increment for the year is a maximum amount for bonding purposes. He stated most cities take much less than that in order to retain and allow for flexibility of projects. He stated a variety of smaller projects are generally more bankable than a few large projects because there is more reliability in diversifying the amount over several properties rather than concentrating on one or two.

Mr. Schwabauer provided a brief overview of how property tax values will continue to affect redevelopment and tax increment regardless of market fluctuations because as an example the property tax continues to grow at the 2% per year rate.

In response to Council Member Hitchcock, Mr. King stated that, although staff has crunched some numbers based on the usage of certain parcels, current zoning, market conditions, and projected future increment, the numbers still remain hypothetical at best.

In response to Council Member Hitchcock, Mr. King stated he is not sure what the tax increment would be for the \$355 million amount over 45 years for the school district, but he will provide that information when it is available.

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In response to Council Member Johnson, Mr. King stated that with a variety of projects the question of whether to assume soft or hard debt would be based on how much increment is available and what the project costs amount to.

In response to Mayor Mounce, Mr. King stated there is a possibility that a project could be classified as both infrastructure and economic development for redevelopment purposes.

In response to Council Member Katzakian and Mayor Mounce, Mr. King stated that, for private development purposes, a developer would need to layout what he or she needs and the City would consider the availability of increment over a period of time and assess the benefit associated with such development.

C. COMMENTS BY THE PUBLIC ON NON-AGENDA ITEMS

None.

D. ADJOURNMENT

No action was taken by the City Council. The meeting was adjourned at 8:13 a.m.

ATTEST:

Randi Johl
City Clerk