Financing the Great Park:
Now You See It, Now You Don't

1. Summary

	Abbreviations
CFD	Community Facilities District (also known as Mello-Roos District)
GPC	Great Park Corporation
MCAS	Marine Corps Air Station El Toro
OCGP	The Orange County Great Park
RDA	Redevelopment Agency
The Agency	RDA
The City	The City of Irvine
The Council	The Irvine City Council

The Orange County Great Park had a troubled birth. It was conceived when residents of Irvine and nearby communities were faced with the prospect of having as their immediate neighbor an international airport that would serve 38 million passengers a year.

This likelihood stemmed from the closing of the El Toro Marine Corps Air Station (MCAS) in 1999 and the narrow approval of two countywide ballot measures that endorsed the development of a commercial airport at the decommissioned base.

After those propositions were approved, airport opponents put on the countywide ballot a third initiative—Measure F—that would have required a two-thirds majority of voters to build airports near residential neighborhoods. The measure passed by a 2-to-1 margin in March 2000, but the courts later found the initiative "constitutionally vague" and illegal and the election result was negated.

Marshalling their forces to prevent what they felt would be an intrusive airport, Irvine city officials looked for an alternative. They found it in the concept of a Great Park, a title that was the brainchild of a political consultant advising Irvine. As a city official of that time later explained, "To beat a bad idea, you have to offer a good idea."

And so Measure W came before Orange County voters, entitled "The Orange County Central Park and Nature Preserve Initiative." The proposition banned any airport use on the site of the El Toro air station and amended the county's General Plan to allow an urban regional park

Glossary

The Agreement	The Purchase and Sale and Financing Agreement between the Irvine Redevelopment Agency and the City of Irvine. Under this Agreement, the Irvine Redevelopment Agency borrowed $134 million from the City of Irvine. (Also Loan Agreement)
The Loan	The $134 million lent to the Irvine Redevelopment Agency by the City of Irvine
Loan Agreement	Also The Agreement
Project Area Cash Flow	As defined in the Loan Agreement: "Project Area Cash Flow shall mean, with respect to any Fiscal Year, the amount of Property Tax Increment for such Fiscal Year reduced by the Expenses for such Fiscal Year."
Tax Increment	The portion of property taxes generated from the increased assessed value after a land transfer or new real estate development in a redevelopment project area, compared to the value in the "base year" when the redevelopment area was established.

there.

After nearly a year of contentious campaigning by proponents and opponents of an airport, on March 5, 2002, voters approved the measure by a margin of 58% to 42%.

In the bitter debate, airport adherents warned that county taxpayers' bills would be raised 10% to finance construction of a Great Park. Those favoring the park promised there would be no taxes necessary to build the park. Neither side's forecast was accurate, in the view of many.

Irvine's next challenges were to acquire the property for a park and find the money to build it. Irvine's solution was to use other people's money, instead of dipping into public (taxpayer) funds. In pursuit of this goal, Irvine officials have produced a financing scheme that is confusing and misleading.

The 2009-2010 Orange County Grand Jury's findings include:

1. The terms of one of Irvine's park-financing mechanisms will make it difficult for regular payments to be made on a $134 million loan that the City made to its Redevelopment Agency.
2. The City of Irvine has the authority to cancel the huge park-related debt owed to it by the City's Redevelopment Agency before it is fully repaid.
3. A potential conflict of interest exists because Irvine City Council members also serve on two other city-related governing boards.

(The complete list of Findings can be found in Section 6 of this report.)

2. Purpose of the Study

With estimates of the Great Park's total cost as high as $1.6 billion, finding a way to finance the project tested the ingenuity of Irvine city officials. There are questions about some of the plans being used to raise the necessary funds, and about whether the estimated amounts are adequate for what will be one of the largest—if not the largest—municipal undertakings in Orange County history.

Beyond the financing issue is the matter of whether there was adequate transparency and candor by Irvine city officials in keeping taxpayers informed of the full consequences of the park financing structure.

This study analyzes the methods being used to finance the Great Park and examines the fiscal projections used in park planning.

3. Method of Study

Like any major project, the Great Park has had its share of supporters and critics. Some criticism, in the form of formal complaints, was received by the 2009-2010 Grand

Jury and given consideration. The Grand Jury conducted interviews with Irvine City officials, including those associated with the municipal government, the Irvine Redevelopment Agency (RDA) and the board and staff of the Great Park Corporation (GPC). Additionally, former members of the Irvine power structure were interviewed, as well as members of the private sector whose interests are related to the Great Park project.

Members of the Grand Jury have perused numerous documents, many obtained with the cooperation of Irvine and Great Park officials, and other documents independently acquired. The Grand Jury also found public archives of Irvine events of great value.

Research by the 2005-2006 Orange County Grand Jury into other aspects of the Great Park also proved to be valuable.

4. Background and Facts

The Great Park Corporation came into being on July 7, 2003, when its articles of incorporation were filed with the California Secretary of State. The GPC's primary purpose was defined as "…to receive, develop, and operate property and improvements…for the benefit of the residents of the City of Irvine, and others." The board was to be composed of "…no less than seven (7) or more than thirty (30) directors, two (2) of whom shall be officers or employees of the City of Irvine…"

The iconic orange balloon that is the highly visible symbol of the Orange County Great Park takes visitors 400 feet high for a tethered view of the Park site. The balloon flies Thursday through Sunday.

But when the Great Park Board met for the first time on Dec. 5, 2003, it adopted bylaws that changed the Board's composition. The amended Articles of Incorporation specified "nine (9) directors, five (5) of whom shall be the persons serving as the duly elected or appointed members" of the Irvine City Council. The amendment also redefined "City Directors" from "officers of the City of Irvine designated by the City Council of the City of Irvine" to "members of the City Council of the City of Irvine."

In April 2006, the Irvine City Council, on a 3-to-2 vote, relegated the GPC to an advisory role and assumed full governance of the Great Park.

Two-mile-long runways still dominate the vast expanse of the Great Park site in Irvine. The runways are reminders of the days when they were part of the U.S. Marine Corps Air Station El Toro.

4.1 Acquiring the Great Park Site

Without the former El Toro Marine Corps Air Station there would be no Great Park. Irvine's early hopes that the Navy Department would give the decommissioned base to the City after Congress voted to close it were dashed when the Navy decided to auction off the 4,700-acre site. But city officials found a way to gain their goal. On Jan. 14, 2004, the City of Irvine completed annexation of the base's nearly 7 ½ square miles, thus achieving governmental control of the land although not ownership.

The Lennar Corp. made a winning bid of $649.5 million for El Toro in the Navy's Feb. 16, 2005, auction.

Immediately after escrow closed on July 12, 2005, Lennar agreed to transfer 1,347 acres to Irvine for a park and to pay $200 million in development fees which could be used in park construction. Under the agreement between Lennar and the City of Irvine, Lennar was granted development rights on the property it retained.

Lennar also pledged to spend another $201 million for joint infrastructure and facilities such as roads and utility connections. The $201 million would come from a Community Facilities District (CFD) bond sale secured by the property. Homeowners in a CFD (also known as a Mello-Roos district) pay a special tax, in addition to their customary county property tax, for infrastructure and other improvements.

4.2 Finding the Master Designer

Anticipating eventual acquisition of the park site, the Great Park Corp. in April 2004 solicited proposals for the job of the park's master designer. In June a design jury thinned the field of 24 design firms to seven. In September a second jury narrowed the field to three, and finally in March 2006 Ken Smith of New York was selected as Great Park master designer.

4.3 Finding the Money

The structure that Irvine built to finance the Great Park stands on four legs.

The first leg was Irvine's agreement with Lennar Corp. (known also at various times as Heritage Fields and Five Point Communities, because of corporate realignments). Under the agreement, Lennar gave Irvine 1,347 acres for the park site, $200 million cash for development fees and a pledge of an additional $201 million for joint infrastructure.

The second leg was the formation of the Irvine Redevelopment Agency. In adopting the Redevelopment Plan, known also as the Orange County Great Park Redevelopment Project, the Irvine City Council cited as one of its goals in forming the Agency "To convert the former Marine Corps Air Station ('MCAS') El Toro to a Great Park with regional open space, cultural, educational and recreational facilities."

Formation of a redevelopment agency was essential to Irvine's plan because under California's redevelopment law, once a redevelopment agency is formed and acquires debt (by issuing bonds or borrowing money, for example), the agency becomes the recipient of tax increment revenue. The tax increment is the portion of property taxes generated from the increased assessed value from a land transfer or new real estate development in a redevelopment project area, compared to the value in the "base year" when the redevelopment area was established. For example, if taxes on a piece of property in a project area were $1,000 in 2004 but rose to $5,000 in 2005 after the land was sold to a new owner who planned extensive development, the tax increment would be $4,000, which would go into the coffers of the redevelopment agency.

Tax increments would continue to flow annually to a redevelopment agency during the 45 years to which its life is limited under state law.

But with assessed value of much Orange County property decreasing in the recession that began in 2008, the original projections of potential tax increments now seem unrealistic.

The third leg of the Great Park financing plan was a purchase/sale/loan agreement between the City of Irvine and the Irvine Redevelopment Agency adopted in August 2007. Under this agreement, the Redevelopment Agency borrowed $134 million from the City's Great Park fund. (Remember: the Great Park fund contained the bulk of the $200 million in development fees that Lennar paid in 2005.) The Agency then used the borrowed $134 million to purchase 35 acres owned by the City near the Amtrak/Metrolink station. The Redevelopment Agency's plans call for various commercial and residential uses of that property. Some city officials say privately that much of the residential component of the 35 acres would be used to satisfy the state requirement that 20% of a redevelopment agency's tax increment revenue be set aside for low and moderate income housing.

Subsequently, the City transferred the $134 million that it received from the sale of the 35 acres back into the Special Great Park Fund.

But the Redevelopment Agency was left with the obligation to repay the $134 million it had borrowed from the City.

Under terms of the Loan Agreement, the Redevelopment Agency is to repay the loan at 9% interest, compounded annually, over the 45-year life of the Agency. Only tax increment revenue can be used to repay the loan, and then only if the tax increments exceed the project area's "cash flow" for the fiscal year. The first payment was due on Aug. 15, 2009. It was not made.

The fourth leg of the Great Park financing structure is the Community Facilities District (CFD). Heritage Fields (one of the corporate entities used by Lennar), in cooperation with the City of Irvine, agreed to form a CFD that would cover the new residential neighborhoods around the Great Park. A CFD is an area in which a special property tax on real estate, in addition to the normal property tax, is imposed on owners of real property. These districts may sell bonds to finance public improvements and services, such as streets, water, sewage and drainage, electricity, infrastructure, schools, parks and police protection.

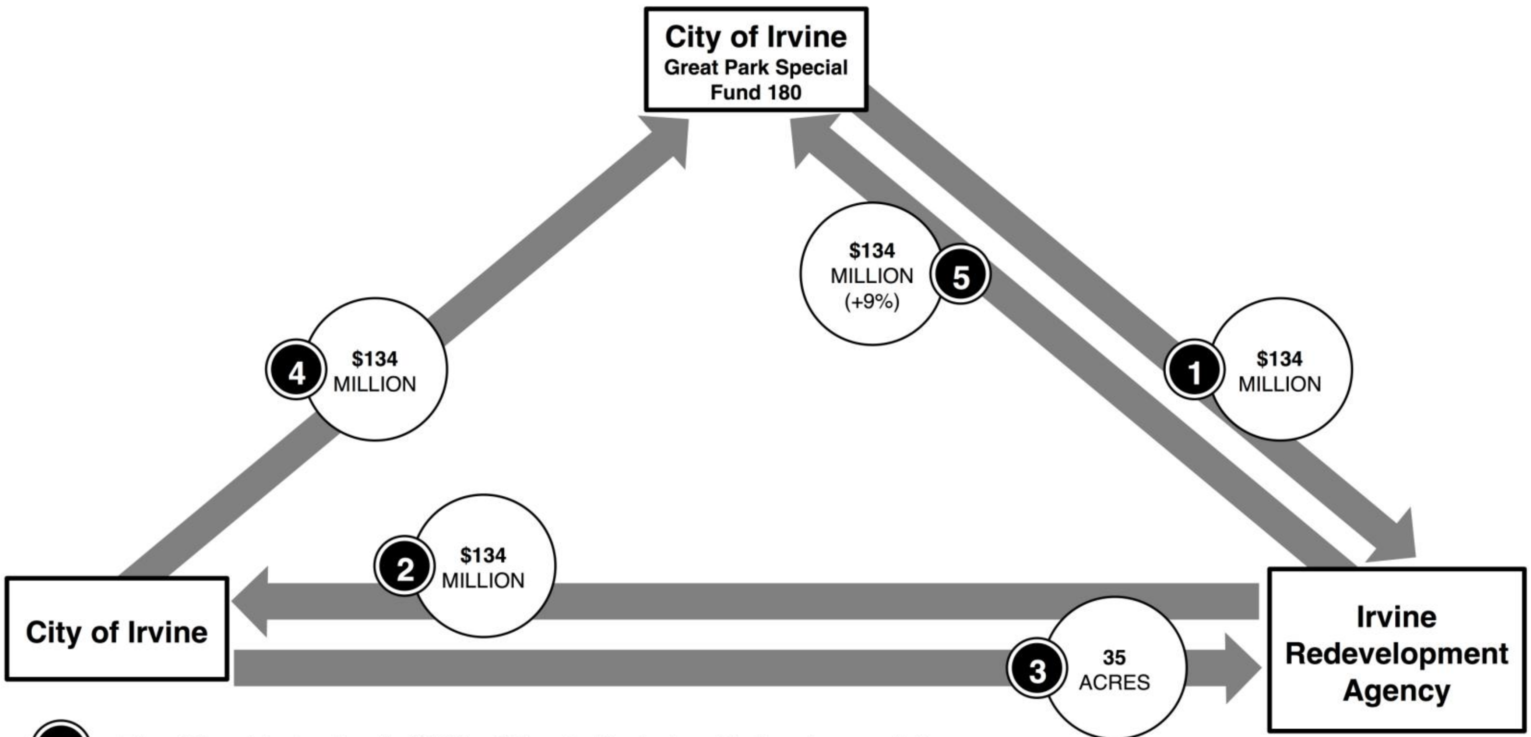
In an established neighborhood, a CFD cannot be formed without a two-thirds majority vote of residents within the proposed boundaries. If there are fewer than 12 residents, the vote instead is conducted of current landowners. In the case of the Heritage Fields area adjoining he Great Park, there was a single landowner—Heritage Fields.

(The Community Facilities District Act, also known as the Mello-Roos Law, was enacted by the State Legislature in 1982 because Proposition 13, passed in 1978, had severely limited the ability of local governments to use property taxes to construct public facilities and services.)

According to the Great Park Strategic Business Plan of Nov. 12, 2009, the park will share in CFD bond proceeds as well as "a portion of the Special Tax to be allocated for operations and maintenance of the Park." The Business Plan adds that through proceeds from the special CFD tax, Heritage Fields "will contribute up to a maximum of $9.5 million per year for park maintenance and operations" beginning in Fiscal Year 2014-2015.

Further, the Business Plan specifies that under the amended development agreement between Irvine and Heritage Fields, the City's "Great Park Special Fund will receive $18 million for maintenance and operations support of the Great Park over a 5-year period beginning Fiscal Year 2009-2010." The Business Plan notes, however, that the start of those payments will be delayed because of a lawsuit filed by Forest Lawn against Irvine and affecting park planning.

The Money Trail



1. The City of Irvine lends $134 million to the Irvine Redevelopment Agency.
2. The Redevelopment Agency buys 35 acres of City land near the future Great Park for $134 million.
3. Irvine transfers the 35 acres to the Irvine Redevelopment Agency. That land will be used to expand the Irvine train station, build affordable housing and for other development projects.
4. Irvine transfers $134 million to its Great Park Special Fund 180.
5. The Irvine Redevelopment Agency agrees to repay the $134 million loan to the City at 9% interest compounded annually over 45 years.

Source: Adapted from Orange County Register, Aug. 10, 2007.

How to Pay Back a Loan—Sort of

Whether the $134 million loan ever will be fully repaid to the City by the Redevelopment Agency is questionable. City and Redevelopment officials speak confidently of ultimately satisfying the debt. But City officials and the Çity's lawyers have woven a web of legal phraseology that seems designed to provide reasons not to make payments on the loan. Irvine's own estimates of income and expenses suggest that for the foreseeable future there may not be enough money in the Redevelopment Agency's till to make sizable loan repayments.

The Loan Agreement limits the Redevelopment Agency to making repayments only from what is called Project Area Cash Flow, which is what is left after the Agency's annual expenses are deducted from its annual tax increment revenue. Part of the definition of "expenses" in the Agreement reads: "…all loans, obligations, indebtedness or other obligations of Agency payable from Property Tax Increment." Paragraph 15 of the Executive Summary of the Loan Agreement's Terms of the Agreement says it succinctly: "The Loan and accrued interest will constitute an indebtedness of the Agency."

But what you see (in the Loan Agreement's terms) is not necessarily what you get.

In effect, the Loan Agreement creates two different kinds of debt: (1) "annual," which becomes part of the yearly calculation to determine if there was a positive "cash flow" in the previous fiscal year, and (2) other debt accumulated in earlier years.

So despite the Agreement's declaration that "The Loan and accrued interest will constitute an indebtedness of the Agency," the effect of creating two classes of debt is to relegate the $134 million loan to a secondary status. Payments on the loan can be made only after debts incurred during the previous fiscal year are dealt with. In other words, if we don't have the cash, we don't have to pay.

The equivocal language of Section 2.4 of the Loan Agreement demonstrates the desire to have it both ways. First, it reads that "Commencing on August 15, 2009, and continuing on each August 15…Agency shall make annual payments to the Great Park Fund…"

The word "shall" makes repayment mandatory. There is no option.

But then Section 2.4 adds: "Agency's obligation to make annual payments…shall be applicable only to the extent there is sufficient Project Area Cash Flow available from the preceding Fiscal Year…"

Now you see it, now you don't.

Section 2.4 of the Loan Agreement doesn't even get into the subject of the 9% interest compounding annually on a $134 million loan, or the 10% yearly penalty required by the state for nonpayment.

It is the position of City of Irvine officials that if there is not a positive Project Area Cash Flow, then according to Loan Agreement terms, no repayment is "due" from the Redevelopment Agency. So if the Agency does not achieve a positive Project Area Cash Flow, it apparently is excused from making a loan repayment in that year—and presumably no penalty would be levied because by definition, no payment was "due."

This kind of "reasoning" invites comparison to a passage from Alice in Wonderland:

"*When I use a word," Humpty Dumpty said in rather a scornful tone, "it means just what I choose it to mean—neither more nor less."*

No specific sum is required as the annual payment on the Loan. Instead, the amount of the repayment is the Project Area Cash Flow. If Redevelopment Agency expenses exceed tax increment revenue, there is no Project Area Cash Flow for that year—and hence no repayment.

As one official summed it up: "If the result of that calculation (deducting expenses from property tax increment) is a negative number for a fiscal year, there is no obligation (to make a loan payment) due…"

Further complicating the issue is the fact that the Agency, to pay for Great Park capital development, may sell bonds as early as 2015. The Great Park Strategic Business

Plan discusses two bonding options. Under the first, bonds amounting to $73.5 million would be sold in 2015 and 2021. In the second option, bonds totaling $71.1 million would be sold in 2016 and 2022.

Tax increment revenue would be used to pay off those bonds.

The bond issues would put additional strain on the Redevelopment Agency's financial resources. As the Great Park Strategic Business Plan explains: "For every $1 million of tax increment revenue that is available to pay debt service on a bond issue approximately 40% must be diverted to repay the RDA $134 million loan amount…"

Thus, repayment of those bonds would become another obligation in the Agency's expenses column, increasing the amount of tax increments needed to produce a positive Project Area Cash Flow.

Of more immediate concern is paying for construction which is scheduled to begin later this year on what Great Park officials call their Western Sector Plan. It involves approximately 225 acres and is budgeted at $65.5 million. There is still enough of Lennar's original $200 million payment left in the Great Park Fund to pay for this new work, and Park officials are hoping that construction costs will be lower than expected because of the depressed state of the economy.

As of June 30, 2009, the Great Park Fund showed an adjusted balance of $128.6 million. Since its inception, the Park has had revenues of $369 million, the largest portion being Lennar's $200 million fee. The revenue total also includes the $134 million which the City received from sale of 35 acres to the Redevelopment Agency. The RDA had borrowed the $134 million from the City. Major expenses of the Park since its inception were $10.5 million for a master plan, $25.6 million for schematic design and $4.2 million for the Preview Park.

As Lennar's $200 million is consumed by construction and other expenses, more reliance will be made by the Great Park on tax increment revenue to pay the bills. For Fiscal Year 2008-2009 (the last period for which complete figures were available when this report was written), the Redevelopment Agency showed a negative Cash Flow of

$3,551,016, chiefly because the RDA budgeted $6.4 million of its $8,772,830 tax increment for 2008-2009 as a reserve for a tax appeal.

The Redevelopment Agency projects net tax increments of $3,148,154 for FY 2009-2010, and for the following two years $3,120,868 and $3,376,734. How these projections will be affected by recession-inspired delays in Lennar's development plans is not clear. And construction planning at the Great Park and by Lennar was further delayed by a lawsuit filed last year against Irvine by Forest Lawn Mortuary, which contends that changes in the Irvine-Lennar development agreement adversely affect its plans for a cemetery.

Even if there is a positive Project Area Cash Flow, that does not guarantee that a payment would be made on the $134 million loan because a clause of the Loan Agreement dictates that everyone else must be paid before the City would receive a loan repayment. In the words of the Loan Agreement:

2.6 Subordination. *The repayment of the Loan and accrued interest by Agency shall be junior and subordinate to (i) all Agency tax allocation bonds or other direct long-term indebtedness of Agency, (ii) all pledges by Agency of tax increments for tax allocation bonds or other direct long-term indebtedness of Agency, (iii) Agency financial agreements and other contractual obligations of Agency, and (iv) the payment of any other Expenses of Agency, whether any of the foregoing in clauses (i), (ii), (iii) or (iv) are incurred before or after the date of this Agreement.*

That makes it crystal clear that the City of Irvine is last in line to get a payment on its loan when the tax increment pie is divvied up.

City and Redevelopment officials say potential buyers would shun RDA bonds without the subordination clause.

5.1 A Tax Increment Commitment

In its Strategic Business Plan, the Great Park forecasts that it will receive the first loan payment during Fiscal Year 2012-2013, even though the Loan Agreement calls for the initial payment to be made on Aug. 15, 2009. Projected Redevelopment Agency loan payments between FY 2012-2013 and FY 2019-2020 range from $2.9 million (the first year) to $7.7 million, in FY 2019-

2020, when development of the Heritage Fields would be well underway and serving as an engine to produce tax increment revenue.

None of those amounts, however, comes close to meeting the $12 million annual interest on the loan.

There is a further caveat. Despite the 2005 Irvine Redevelopment Plan assertion that one of its goals is "To convert the former Marine Corps Air Station El Toro to a Great Park with regional open space, cultural, educational and recreational facilities," Great Park officials appear unsure of that commitment. On Page 22 of the Great Park Strategic Business Plan is this statement:

It should be noted that apart from the repayment of the Purchase, Sale and Financing Agreement loan, the tax increment that flows into the Irvine Redevelopment Agency (RDA) is not Great Park revenue. The Board of the RDA controls the tax increment. A base assumption of this business plan is that the RDA Board will choose to utilize tax increment to fund future Great Park development.

That same uneasiness over the commitment of the Redevelopment Agency is reflected again in another statement in the Strategic Business Plan:

On April 27, 1999, the City of Irvine activated the Redevelopment Agency (RDA) and on March 8, 2005, adopted the Redevelopment Plan for the Orange County Great Park Redevelopment Project Area. The second action made development of the Great Park eligible for funding with tax increment revenue, ***should the RDA Board approve such use of tax increment revenue.*** (Emphasis added.)

Nowhere in the Redevelopment Plan is there a categorical pledge that the RDA will transfer enough tax increment revenue to the Great Park Fund to guarantee that the park project will be completed.

But not to worry. Even if mounting annual interest charges add to its unpaid debt, the Redevelopment Agency has an escape clause that allows it to thumb its financial nose at the Loan Agreement and never make a payment. Section 2.4 of the Loan Agreement reads, in part:

…Agency's obligation to make annual payments under this Section 2.4 shall be applicable only to the extent there is sufficient Project Area Cash Flow available from the preceding Fiscal Year. ***If not***

sooner paid, the outstanding balance of the Loan and accrued interest shall be forgiven and discharged on the Payment Date that occurs after the last Fiscal Year in which the Agency is entitled to collect tax revenues from the Project Area in accordance with the Redevelopment Plan… (Emphasis added.)

Because the passive voice is used in the language authorizing forgiveness of the Redevelopment Agency's debt, it is not clear which City agency would forgive the debt. However, since the signators include representatives of both the Redevelopment Agency and the City of Irvine as a municipal corporation, one can assume that the responsibility for forgiveness would be a joint undertaking.

It is no coincidence that the same five people who are members of the Irvine City Council also are the five members of the Irvine Redevelopment Board. In establishing the Redevelopment Agency, the Council specified that RDA Board members would be the five members of the City Council. It is common practice throughout California for Council members to also be Redevelopment Board members. However, no California city of Irvine's size has a $1.6 billion park project and a Redevelopment Agency that owes its City $134 million for a loan.

The Great Park would not be without funds if loan repayments are missed. The Park's aggressive management generates income from several leases, including RV storage, a green waste facility and farming. Adding interest from invested funds, the Park now earns more than $6 million a year and is pursuing other new tenants, among them the Wild Rivers Waterpark and an outdoor music amphitheater. One of the new tenants is Cirque du Soleil, which has an eight-year agreement to appear at a Great Park site. Although the Cirque will pay no rent nor share its gate receipts, the Park will keep all parking fee income.

5.2 The Three R's: Redevelopment, Revenue and Repayment

Great Park management forecasts that during the 45-year life of the Redevelopment Agency, the RDA will have net tax increment revenue of $1,165,887,448. The estimated $1.3 billion to $1.6 billion needed to build the Park seems attainable when one adds the projected tax increment revenue to the income the Great Park will receive from various leases, payments from the Community Facilities District's special tax on homeowners, the residue of Lennar's $200 million development fees and the $201 million pledged for joint infrastructure.

Will it be enough?

RDA projections of net tax increments begin with $3,148,154 in the current Fiscal Year, 2009-2010, and increase annually. It is not until 2021-1022 that tax increments would exceed $20 million. As stated earlier, those projections are contingent upon when recession-inspired construction delays end and Lennar produces significant development.

The Redevelopment Agency could make partial payments on the $134 million loan. That possibility is authorized in Section 2.4 of the Loan Agreement: "Agency shall be entitled to prepay all or any portion of the Loan and accrued interest at any time with no charges, fees, or penalties." However, no such commitment is in the text of the Irvine Redevelopment Plan.

TABLE 1. REDEVELOPMENT TAX INCREMENT PROJECTIONS
Heritage Fields
September 4, 2009 Scenario - Land Value of $598 Million to Reflect Appeal

TI Collec. Year	Fiscal Year	Total Assessed Valuation	Estimated Gross Tax Increment @ 1%	Mandated Allocation: Total Statutory Pass-Thrus	Net Revenue for RDA After All Other Allocations
Base Year	2004-05	3,975,071			
4	2009-10	602,299,070	5,983,240	1,196,648	3,148,154
5	2010-11	597,113,296	5,931,382	1,186,276	3,120,868
6	2011-12	645,742,149	6,417,671	1,283,534	3,376,734
7	2012-13	908,782,913	9,048,078	1,809,616	4,760,755
8	2013-14	1,274,609,293	12,706,342	2,541,268	6,685,594
9	2014-15	1,605,862,372	16,468,873	3,293,775	8,665,295
10	2015-16	2,165,017,212	21,610,421	4,322,084	11,370,583
11	2016-17	2,461,933,202	24,579,581	5,414,735	12,490,290
12	2017-18	2,908,385,777	29,044,107	7,057,681	14,173,918
13	2018-19	3,344,447,516	33,404,724	8,662,388	15,818,360
14	2019-20	3,800,735,975	37,967,609	10,341,529	17,539,081
15	2020-21	4,248,949,779	42,449,747	11,990,956	19,229,351
16	2021-22	4,790,164,245	47,861,892	13,982,625	21,270,338
17	2022-23	5,550,117,730	55,461,427	16,779,254	24,136,216
18	2023-24	6,477,500,291	64,735,252	20,192,022	27,633,491
19	2024-25	6,671,698,426	66,677,234	20,906,671	28,365,836
20	2025-26	6,871,722,506	68,677,474	21,642,760	29,120,152
21	2026-27	7,077,747,308	70,737,722	22,400,931	29,897,097
22	2027-28	7,289,952,854	72,859,778	23,181,847	30,697,350
23	2028-29	7,508,524,566	75,045,495	23,986,191	31,521,611
24	2029-30	7,733,653,430	77,296,784	24,814,666	32,370,600
25	2030-31	7,965,536,159	79,615,611	25,667,994	33,245,059
26	2031-32	8,204,375,371	82,004,003	26,546,922	34,145,751
27	2032-33	8,450,379,759	84,464,047	27,452,218	35,073,464
28	2033-34	8,703,764,278	86,997,892	28,384,673	36,029,009
29	2034-35	8,964,750,333	89,607,753	29,345,102	37,013,219
30	2035-36	9,233,565,970	92,295,909	30,334,344	38,026,956
31	2036-37	9,510,446,076	95,064,710	31,663,368	38,795,980
32	2037-38	9,795,632,585	97,916,575	33,032,263	39,588,074
33	2038-39	10,089,374,689	100,853,996	34,442,226	40,403,931
34	2039-40	10,391,929,056	103,879,540	35,894,487	41,244,264
35	2040-41	10,703,560,055	106,995,850	37,390,315	42,109,806
36	2041-42	11,024,539,983	110,205,649	38,931,019	43,001,315
37	2042-43	11,355,149,309	113,511,742	40,517,944	43,919,569
38	2043-44	11,695,676,915	116,917,018	42,152,476	44,865,371
39	2044-45	12,046,420,349	120,424,453	43,836,045	45,839,547
40	2045-46	12,407,686,086	124,037,110	45,570,120	46,842,948
41	2046-47	12,779,789,796	127,758,147	47,356,218	47,876,451
42	2047-48	13,163,056,616	131,590,815	49,195,899	48,940,960
43	2048-49	13,557,821,441	135,538,464	51,090,770	50,037,403
44	2049-50	13,964,429,211	139,604,541	53,042,487	51,166,740
45	2050-51	14,383,235,214	143,792,601	55,052,756	52,329,957
Total			3,128,041,262	1,053,887,106	1,265,887,448
Net Present Value @ 6%			725,514,063	227,011,557	309,068,493

In determining Net Revenue, this chart does not include the City of Irvine's $134 million loan to the Irvine Redevelopment Agency as an expense for calculating Project Area Cash Flow.

5.3 Five Heads, Three Hats

Irvine's five City Council members also are the self-appointed five members of the Redevelopment Agency Board of Directors as well as the majority on the nine-member board of the Great Park Corporation. This arrangement creates an enormous potential for conflict of interest because each of the three entities has its own goals, which do not always coincide with the other two.

The Great Park Board, although no longer separate and independent of the City Council, is responsible for building the park as quickly and efficiently as possible. However, having been demoted by the Council to the status of a city department, it has no funds that are separate from the City's, and it is dependent on the Council for its income. The Great Park's money is in the City's Special Fund 180 (OCGP Special Fund).

As the governing body for the entire City, the Irvine City Council has multiple responsibilities and obligations. When demands for City funds exceed the available money, City Council members must decide between conflicting interests.

The same situation prevails at the Redevelopment Agency, where Board members must weigh the expense of lofty goals against the reality of limited income and the responsibility to maintain fiscal good health.

5.4 Promises and Taxes

From the inception of the notion of a Great Park, its most vociferous promoters have promised that the Great Park can be built without it costing taxpayers a cent. The principal purveyor of this pledge has been Irvine's former mayor, Larry Agran, still a City Council member. In his State of the City speech on Jan. 27, 2004, he declared that the Great Park Corp. "will have the responsibility of seeing to it that the Great Park is designed and built on time, within budget, and operated without need for any additional cost to Irvine and Orange County taxpayers."

The same pledge has been repeated many times. In a magazine article published in June 2009, Agran wrote, "No new taxes will be required to build the park."

Agran is also chairman of the board of the Great Park Corp. In a State of the Park address he made on July 9, 2009, he announced that the City of Irvine and the Great Park Board were requesting federal stimulus funds—taxpayer money—for Park development.

In fact, other categories of tax funds are destined to be employed in building the Great Park. The Redevelopment Agency's tax increment revenue will be derived from increases in the assessed value of homeowners' property n the Great Park neighborhood.

Taxpayers also will be tapped with a special tax for the Community Facilities District formed in the soon-to-be-developed Great Park residential areas. Although the CFD special tax was legislatively designed to pay for infrastructure in new neighborhoods, in Irvine that special tax also will benefit the Great Park. As the Park's Strategic Business Plan states: "In addition to CFD bond proceeds which are used for the development of capital infrastructure, the Development Agreement also provides for **a portion of the Special Tax to be allocated for operations and maintenance of the Park."** (Emphasis added.)

6. Findings

In accordance with California Penal Code 933 and 933.05, each finding will be responded to by the government entity to which it is addressed. The responses are to be submitted to the Presiding Judge of the Superior Court. The 2009-2010 Orange County Grand Jury has arrived at the following findings:

F.1 *Repayment of $134 million loan.* Terms of the Loan Agreement make it difficult for the Irvine Redevelopment Agency to fully repay its $134 million loan from the City of Irvine.

F.2 *Forgiving the loan.* After setting difficult standards for loan repayment, City and Redevelopment officials then agreed to forgive the loan if it is not repaid after the Redevelopment Agency expires in 45 years.

F.3 *Business cycle ignored.* In forecasting steadily increasing tax increment revenue over the Redevelopment Agency's 45-year life, Agency officials ignored the periodic recessionary effect that the business cycle has on assessed valuation.

F.4 *Promises of no new taxes.* Despite pledges that no new taxes would be needed to build the Great Park, much of the Park's proposed funding will come from new taxes and the redirecting of increased property taxes.

F.5 *Potential conflict of interest.* It is difficult for differing views to be adopted in Great Park planning because the five people who are City Council members also are the Redevelopment Agency Board members as well as the majority the Great Park Board.

Responses to Findings F.1 and F.2 are required from the Irvine City Council and Irvine Redevelopment Agency.

Response to Finding F.3 is required from the Irvine Redevelopment Agency.

Responses to Findings F.4 and F.5 are required from the Irvine City Council.

7. Recommendations.

In accordance with California Penal Code 933 and 933.05, each recommendation will be responded to by the government entity to which it is addressed. The responses are to be submitted to the Presiding Judge of the Superior Court. Based on the findings, the 2009-2010 Orange County Grand Jury makes the following recommendations:

R.1 *Repayment of $134 million loan.* Irvine Redevelopment Agency Board members (who also are Irvine City Council members) should decide whether they will commit to repaying the $134 million which they borrowed from the City. If they will not make that commitment, they should amend the Loan Agreement by removing conditions that make full repayment extremely difficult.

R.2 *Forgiving the loan.* The City Council and the Redevelopment Agency Board should consider amending the forgiveness clause in the Loan Agreement to ensure that the $134 million loan is repaid.

R.3 *Business cycle ignored.* Tax increment revenue projections made by the Redevelopment Agency should be revised to take into account the business cycle that regularly puts the economy through predictable periods of recession and recovery.

R.4 *Promises of no new taxes.* City officials should inform Irvine residents that new taxes and/or increases in existing taxes may be needed for Great Park construction.

R.5 *Potential conflict of interest.* The five Irvine City Council members should make the boards of the Great Park Corp. and the Redevelopment Agency and the Council independent of one another.

Responses to Recommendations R. 1 and R. 2 are required from the Irvine City Council and Irvine Redevelopment Agency.

Response to Recommendation R.3 is required from the Irvine Redevelopment Agency.

Responses to Recommendations R.4 and R.5 are required from the Irvine City Council.

8. Required Responses

The California Penal Code specifies the required permissible responses to the findings and recommendations contained in the report. The specific sections are quoted below:

933.05

1. For purposes to Subdivision (b) of Section 933, as to each grand jury finding, the responding person or entity shall indicate one of the following:

(1) The respondent agrees with the finding.

(2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

2. For purposes of subdivision (b) or Section 933, as to each grand jury recommendation, the responding persons or entity shall report one of the following actions:

(1) The recommendation has been implemented, with a summary regarding the implemented action.

(2) The recommendation has not yet been implemented but will be implemented in the future, with a timeframe for implementation.

(3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.

(4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

Appendix: Financing the Great Park

The following documents and written sources were used in the preparation of this report:

American City & County. June 1, 2009. "Grand Plans for the Great Park," by Larry Agran.

Contract Compliance Review of Agreement for Master Designer Services. Oct. 1, 2009. Orange County Great Park Corp.

Financial Statement, with Report on Audit, Irvine Redevelopment Agency. June 30, 2007.

Financial Statement, with Report on Audit, Irvine Redevelopment Agency. June 30, 2008.

Great Park Corp. Board of Directors Meeting. Dec. 5, 2003.

Los Angeles Times. Jan. 5, 2005. "Great Park to Get Tax Funds?" by Daniel Yi.

Los Angeles Times. Aug. 14, 2008. "Designers underestimate Orange County Great Park building costs, firm says," by Paloma Esquivel.

Orange County Great Park Proposed Strategic Business Plan. Nov. 12,, 2009.

Orange County Register. March 14, 2008. "Great Park board discusses cash flow," by Cameron Bird.

Orange County Register. March 14, 2008. "Great Park will costs $377 million more," by Sean Emery.

Redevelopment Plan, Orange County Great Park Redevelopment Project. Adopted by Irvine City Council March 8, 2005. (Ordinance No. 05-04)

Purchase and Sale and Financing Agreement Between the Irvine Redevelopment Agency and City of Irvine. Adopted by Irvine City Council, Aug. 14, 2007.

Redevelopment Tax Increment Projections. Heritage Fields, Sept. 4, 2009, scenario.

State of the City Speech. Jan. 27, 2004. Larry Agran.

State of the Park Speech. July 9, 2009. Larry Agran.

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