



December 17, 2014

Mr. Andrew Phillips, CFO & COO, Civic San Diego
City of San Diego
401 B Street, Suite 400
San Diego, CA 92101

Dear Mr. Phillips:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Diego Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on October 1, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 2014. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on December 4, 2014.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- Item No. 618 – City of San Diego (City) Loan Repayment totaling \$8,532,169. Finance continues to deny this item. The Agency received a Finding of Completion on December 2, 2013. However, OB Resolution No. 2014-73, approving the loan between the former Redevelopment Agency (RDA) and the City and finding the loan was for legitimate redevelopment purposes, was denied in our letter dated September 19, 2014.

Under ABx1 26 loans between cities and former RDAs were invalidated. Such loans are not enforceable obligations and could not be included on the ROPS for repayment. AB 1484 made the outstanding principal of these loans eligible for repayment if certain conditions are met, including (1) the successor agency receives a Finding of Completion from Finance and (2) the oversight board and Finance approves the loan. The Agency is now eligible to request the repayment of such loans on the ROPS. However, AB 1484 contemplates that a city/RDA "loan" that would be eligible for repayment consists of principal, interest at specified interest rate, and a repayment schedule – i.e. a traditional loan for money, repaid with interest. It is our understanding the Agreement conveyed approximately 259 acres from the Naval Training Center site to the former RDA for a deferred purchase price of \$8,300,000. However, the Agreement only conveyed property to the former RDA and no money was loaned by the City or actually borrowed by the former RDA. Therefore, the Agreement is not a valid loan agreement

eligible for repayment under any provision of the dissolution statutes. During the meet and confer, additional information provided by the Agency did not substantiate money was actually borrowed; therefore, Redevelopment Property Tax Trust Fund (RPTTF) requested totaling \$8,532,169 continues to be denied.

- Item No. 619 – City Loan Repayments totaling \$9,600,000. Finance continues to deny this item. The Agency received a Finding of Completion on December 2, 2013. However, OB Resolution No. 2014-72, approving the loans between the former RDA and the City and finding the loans were for legitimate redevelopment purposes was denied in our letter dated October 28, 2014. During the meet and confer, the Agency provided various resolutions and financial statements; however, the Agency has not provided any executed loan agreements to support the loans. In addition, based on sample resolutions provided by the Agency, the resolutions did not authorize the loan, rather the resolutions authorized the Agency to enter the loans and sign all loan agreements; however, the Agency has not provided those executed loan agreements; therefore, RPTTF requested totaling \$18,132,169 continues to be denied.
- Claimed administrative costs exceed the allowance by \$164,573. HSC section 34171 (b) limits the fiscal year \$250,000 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$2,922,525 in administrative expenses. The San Diego County Auditor-Controller's (CAC) Office distributed \$2,045,577, thus leaving a balance of \$876,948 available for the January through June 2015 period. Although \$1,041,521 is claimed for administrative cost, only \$876,948 is available pursuant to the cap. Therefore, \$164,573 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. During the meet and confer process, the Agency claimed that the Reserve Balances previously identified by Finance are partially encumbered by housing obligations. However, the Agency concurred that \$11,905,560 is available for reclassification. Therefore, Finance continues to reclassify the items in the following table and will continue to work with the Agency in future periods to reconcile its cash balances:

Item No.	Project Name/ Debt Obligation	ROPS 14-15B Amount of RPTTF Requested	Amount Reclassified to Reserve Balances
2	City Heights Tax Allocation Bonds (TAB), Series 1999 A	\$ 117,470	\$ 117,470
3	City Heights TAB, Series 1999 B	1,490,000	1,490,000
4	City Heights TAB, Series 2003 A	153,980	153,980
6	City Heights TAB, Series 2010 A	158,485	158,485
7	City Heights TAB, Series 2010 B	353,631	353,631
8	Housing Set-a-side, TAB, Series 2010	396,327	396,327
9	Housing Set-a-side, TAB, Series 2010	368,018	368,018
10	Housing Set-a-side, TAB, Series 2010	474,721	474,721
11	Housing Set-a-side, TAB, Series 2010	481,254	481,254
12	Housing Set-a-side, TAB, Series 2010	158,967	158,967
13	Housing Set-a-side, TAB, Series 2010	298,334	298,334
16	Naval Training Center TAB, Series 2010 A	495,160	495,160
17	North Bay - California Housing Financing Agency Loan	1,386,787	1,386,787
18	North Bay TAB, Series 2000	271,477	271,477
19	North Park TAB, Series 2000	146,183	146,183
20	North Park TAB, Series 2003 A	139,837	139,837
21	North Park TAB, Series 2003 B	129,666	129,666
22	North Park TAB, Series 2009 A	477,110	477,110
24	San Ysidro TAB, Series 2010 B	170,813	170,813
25	Crossroads TAB, Series 2010	135,000	135,000
64	Centre City TAB, Series 1999 A	361,634	361,634
66	Centre City TAB, Series 1999 C	227,288	227,288
69	Centre City TAB, Series 2001 A	958,375	958,375
70	Centre City TAB, Series 2003 A	292,755	292,755
71	Centre City TAB, Series 2004 A	1,747,800	1,747,800
72	Centre City TAB, Series 2004 C	594,647	514,488
	Total	\$ 11,985,719	\$ 11,905,560

In addition, per Finance's letter dated November 14, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item Nos. 112 and 200 – Project Costs for the Naval Training Center and Ballpark Village in the amounts of \$750,000 and \$50,000 are not enforceable obligations. No documentation was provided to support the amounts requested. To the extent the Agency can provide suitable documentation, such as the executed contract or vendor invoices to support the requested funding, the Agency may be able to obtain funding on future ROPS.
- Item No. 120 - Project Management, Monitoring, and Auditing of Disposition and Development Agreement Obligations in the amount of \$34,000. During the review

process the Agency requested to have this item removed from the ROPS 14-15B as delays in the project will make the funds unnecessary during the ROPS 14-15B period. Therefore, Redevelopment Property Tax Trust Funds (RPTTF) in the amount of \$34,000 this period is not allowed.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part or items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is \$8,643,639 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	52,849,542
Total RPTTF requested for administrative obligations	1,041,521
Total RPTTF requested for obligations on ROPS	\$ 53,891,063
RPTTF adjustment to non-administrative obligations (Item No. 120)	(34,000)
Total RPTTF adjustments	\$ (34,000)
Total RPTTF requested for non-administrative obligations	52,815,542
<u>Denied Items</u>	
Item No. 112	(750,000)
Item No. 618	(8,532,169)
Item No. 619	(9,600,000)
	(18,882,169)
Total RPTTF for non-administrative obligations	33,933,373
<u>Cash Balances - Items reclassified to Reserve Balances</u>	
Various Item Numbers	(11,905,560)
Total RPTTF authorized for non-administrative obligations	\$ 22,027,813
Total RPTTF requested for administrative obligations	1,041,521
Administrative costs in excess of the cap (see Admin Cost Cap table at the next page)	(164,573)
Total RPTTF authorized for administrative obligations	\$ 876,948
Total RPTTF authorized for obligations	\$ 22,904,761
ROPS 13-14B prior period adjustment	(9,501,323)
Total RPTTF approved for distribution	\$ 13,403,438

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	63,484,129
Total RPTTF for 14-15B (January through June 2015)	33,933,373
Total RPTTF for fiscal year 2014-2015	97,417,502
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	2,922,525
Administrative allowance for 14-15A (July through December 2014)	2,045,577
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	876,948
Total RPTTF administrative obligations after Finance adjustments	1,041,521
Administrative costs in excess of the cap	\$ (164,573)

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. During the ROPS 14-15B review, Finance requested financial records to support the cash balances reported by the Agency. The Agency was able to support the amounts reported except for amounts relating to restricted Other Income. As noted on Page 2 and 3, the Agency's records show Reserve Balances in the amount of \$16,665,359; therefore, Finance has reclassified the available cash balances. Finance will continue to work with the Agency after the ROPS 14-15B review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 15-16A.

Please refer to the ROPS 14-15B schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS>

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2015. This determination only applies to items where funding was requested for the six-month period. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to the enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.


To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to HSC section 34171 (d),

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HSC section 34191.4 (c) (2) (B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. David Graham, Deputy Chief Operating Officer, City of San Diego
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office