



December 17, 2015

Mr. Reese A. Jarrett, President, Civic San Diego
San Diego City
401 B Street, Suite 400
San Diego, CA 92101

Dear Mr. Jarrett:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 12, 2015. 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 15-16B) to Finance on October 1, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 12, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on November 25, 2015.

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 determinations being disputed.

- Item Nos. 261, 266, 285, 446, 447, and 452 – Property Maintenance and Professional Services totaling \$184,540 requested for ROPS 15-16B and a total outstanding amount of \$622,062, was not approved. Finance continues to deny these items. HSC section 34171 (d) (1) (F) states that agreements necessary for the administration or operation of the Agency, such as the cost of maintaining assets prior to disposition, are enforceable obligations. However, Finance initially denied these items given that Finance approved the Agency's Long-Range Property Management Plan (LRPMP) on October 15, 2015, and 40 out of the 48 properties will transfer to the City of San Diego (City) as either government use or future development; the Agency will not need funds to maintain these properties.

During the Meet and Confer process, the Agency contended that the properties for future development must be maintained until such time as they are transferred to the City following execution of a compensation agreement between the City and the taxing entities. However, Dissolution Law does not require that a compensation agreement be reached prior to a property being transferred to the sponsoring entity. Nevertheless, it is Finance's expectation that the required compensation agreement with the affected taxing entities be entered at some point in the future. Therefore, the Agency should proceed with the transfer of the properties to the City as designated in the LRPMP. As such, these items are not eligible for funding from Redevelopment Property Tax Trust

Fund (RPTTF) because the properties the Agency identified as being related to these items are not being retained by the Agency.

- Item Nos. 272 and 319 – Property Maintenance Services totaling \$147,700 requested for ROPS 15-16B and total outstanding amounts of \$361,462 was not approved. Finance continues to deny these items. The Oversight Board (OB) passed OB Resolution Nos. OB-2015-10 and OB-2015-11 extending the contracts related to these items on August 18, 2015. Finance objected to the resolutions in our letter dated September 28, 2015. Finance denied the OB resolutions and these items because both the duration and amounts of the contracts are excessive given 40 out of the 48 properties will be transferred to the City as either government use or future development.

During the Meet and Confer process, the Agency contended that the properties for future development must be maintained until such time as they are transferred to the City following execution of a compensation agreement between the City and the taxing entities. However, Dissolution Law does not require that a compensation agreement be reached prior to a property being transferred to the sponsoring entity. Nevertheless, it is Finance's expectation that the required compensation agreement with the affected taxing entities be entered at some point in the future. Therefore, the Agency should proceed with the transfer of the properties to the City as designated in the LRPMP. As such, these items are not eligible for funding from RPTTF because the properties the Agency identified as being related to these items are not being retained by the Agency.

- Item No. 303 – I-5 Bridge Streetlights, East Village Streetscape, Park Boulevard Crossing, Horton Plaza Park and San Diego High School Crosswalks in the amount of \$50,000 requested for ROPS 15-16B and total outstanding amount of \$469,197 is still denied. Finance originally denied this item as the Agency provided an agreement between Centre City Development Corporation and Nasland Engineering for which the former RDA was not a party. Although the Agency claimed the amount requested was related to engineering work for projects approved on the ROPS, the Agency did not provide documentation to support the item as an enforceable obligation pursuant to HSC section 34171 (d). During the Meet and Confer session, the Agency provided documentation that still does not support this item as an enforceable obligation. Specifically, no contract was provided indicating a contractual relationship between the former RDA, or the Agency, and Nasland Engineering. The contract provided was between the Centre City Development Corporation and Nasland Engineering. Furthermore, pursuant HSC 34167.10 the Centre City Development Corporation is considered the City of San Diego for all things dissolution related. As such, the Operating Agreement documentation provided is an agreement between the City of San Diego and their former RDA and is not an enforceable obligation as defined in HSC 34171 (d). In their totality, the documentation provided only supports an agreement between the Centre City Development Corporation—who is the City of San Diego under dissolution law—and a third party. Therefore, we maintain the former RDA is not a party to the contract and as such, this item is not an enforceable obligation or eligible for RPTTF funding in this ROPS.
- Item No. 325 – Property Maintenance Costs in the amount of \$107,000 requested for ROPS 15-16B and total outstanding amounts of \$380,838 was not approved. Finance continues to deny this item. The OB passed OB Resolution No. OB-2015-12 extending the contract with Urban Corps of San Diego on September 21, 2015. However, Finance objected to the resolution in our letter dated October 30, 2015. The contract is

excessive given that 40 out of the 48 properties will be transferred to the City as either government use or future development with the passing of the October 15, 2015 LRPMP.

During the Meet and Confer process, the Agency contended that the properties for future development must be maintained until such time as they are transferred to the City following execution of a compensation agreement between the City and the taxing entities. However, Dissolution Law does not require that a compensation agreement be reached prior to a property being transferred to the sponsoring entity. Nevertheless, it is Finance's expectation that the required compensation agreement with the affected taxing entities be entered at some point in the future. Therefore, the Agency should proceed with the transfer of the properties to the City as designated in the LRPMP. As such, this item is not eligible for funding from RPTTF.

- Item No. 459 – Business Improvement District/Tax Assessment in the amount of \$155,372 requested for ROPS 15-16B and total outstanding amounts of \$224,328 is no longer denied. Originally, Finance denied this item as it was believed that the obligation for this item would not be due until July 2016, and since the projected costs would not be within the current ROPS period of January 1 through June 30, 2016, the cost was not necessary at this time. However, during the meet and confer the Agency provided documentation, which demonstrates that the assessment amount owed is due on May 30 and a 10 percent penalty would be assessed for late payments. Based on the documentation provided, Finance is now approving this item for RPTTF funding on the upcoming ROPS.

In addition, per Finance's letter dated November 12, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 569 – LRPMP Transfer Costs in the amount of \$250,000 requested for ROPS 15-16B is partially approved for \$109,800. The budget provided by the Agency displays LRPMP transfer costs for numerous properties totaling \$109,800. Therefore, Finance is approving RPTTF in the amount of \$109,800, and remaining balance of \$140,200 (\$250,000 - \$109,800) is not eligible for funding from RPTTF.
- Item Nos. 571 through 573 – Remediation in the amount of \$398,477 is not approved. During the ROPS 15-16B review period the Agency stated there were no specific expenditures anticipated during ROPS 15-16B. As there are no specific expenditures planned for the period, the items are not eligible for funding from RPTTF.
- Claimed administrative costs exceed the allowance by \$15,816. HSC section 34171 (b) limits the fiscal year 2015-2016 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The San Diego Auditor-Controller's (CAC) Office distributed \$1,870,821 for the ROPS 15-16A period thus leaving a balance of \$1,949,870 available for the ROPS 15-16B period. Although \$1,965,686 is claimed for administrative cost, only \$1,945,209 is available pursuant to the cap. Therefore, \$15,816 (\$1,965,686 – \$1,949,870) of excess administrative cost is not allowed.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the

CAC. The amount of RPTTF approved in the table on the following page 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, Finance is not objecting to the remaining items listed on your ROPS 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is \$58,091,465 as summarized in the Approved RPTTF Distribution table on the following page:

Approved RPTTF Distribution	
For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	66,022,882
Total RPTTF requested for administrative obligations	1,965,686
Total RPTTF requested for obligations on ROPS 15-16B	\$ 67,988,568
Total RPTTF requested for non-administrative obligations	66,022,882
<u>Denied Items</u>	
Item No. 261	(15,000)
Item No. 266	(30,000)
Item No. 272	(30,000)
Item No. 285	(11,499)
Item No. 303	(50,000)
Item No. 319	(117,000)
Item No. 325	(107,000)
Item No. 446	(13,289)
Item No. 447	(17,840)
Item No. 452	(96,912)
Item No. 569	(140,200)
Item No. 571	(212,500)
Item No. 572	(30,768)
Item No. 573	(155,209)
	(1,027,217)
Total RPTTF authorized for non-administrative obligations	\$ 64,995,665
Total RPTTF requested for administrative obligations	1,965,686
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(15,816)
Total RPTTF authorized for administrative obligations	\$ 1,949,870
Total RPTTF authorized for obligations	\$ 66,945,535
ROPS 14-15B prior period adjustment	(8,854,070)
Total RPTTF approved for distribution	\$ 58,091,465

Administrative Cost Cap Calculation	
Total RPTTF for 15-16A (July through December 2015)	62,360,714
Total RPTTF for 15-16B (January through June 2016)	64,995,665
Total RPTTF for fiscal year 2015-2016	127,356,379
Administrative cost cap for fiscal year 2015-16 (Greater of 3% of Total RPTTF or \$250,000)	3,820,691
Administrative allowance for ROPS 15-16A (July through December 2015)	(1,870,821)
Remaining administrative cost cap for ROPS 15-16B	1,949,870
ROPS 15-16B administrative obligations after Finance adjustments	(1,965,686)
Administrative costs in excess of the cap	\$ (15,816)

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,


JUSTYN HOWARD
Program Budget Manager

cc: Mr. David Graham, Deputy Chief Operating Officer, City of San Diego, San Diego City
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
Ms. Wanda Nations, Principal Accountant, Civic San Diego