



May 17, 2016

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

Dear Mr. Jarrett:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2016. Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the San Diego City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period of July 1, 2016 through June 30, 2017 (ROPS 16-17) to Finance on J, 2016. Finance issued a ROPS determination letter on April 14, 2016. 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 April 27, 2016.

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. 2, 3, 4, 18, 19, 20, 21, 64, 66, 67, 68, 69, 70, 71, 72, 73, 77, 78, 79, 80, 91 and 92 – Bond debt service totaling \$32,319,568. Finance now approves this item in the aggregate amount of \$23,264,218. Finance had previously approved this item in the amount \$21,739,218. During the Meet and Confer the Agency requested that the amount approved be increased by \$1,525,000 to satisfy debt service for the portion of Item No. 69, Center City Tax Allocation Bonds Series 2001A Non-Callable Bonds that are not being refunded. Our review of the Agency's request indicates that this request is consistent with the debt service schedule for the payment due on September 1, 2017. Therefore, these items are now approved in the aggregate amount of \$23,264,218 (\$21,739,218 + \$1,525,000). The adjustments are summarized on Page 2. The remaining \$9,055,350 (\$32,319,568 - \$23,264,218) is not eligible for funding from the Redevelopment Property Tax Trust Fund (RPTTF) on this ROPS.

Pursuant to HSC section 34183 (a) (2) (A), debt service obligations have first priority for payment from distributed RPTTF funding. As such, the \$23,264,218 of RPTTF authorized for the March and September 2017, for the 2011 Non-Callable and 2016 TABs debt service payments should be transferred upon receipt to the bond trustee(s). RPTTF funding approved for debt service obligations is restricted for that purpose and is not authorized to be used for other ROPS items. Any requests to fund the \$23,264,218 again from RPTTF will not be approved unless insufficient RPTTF was received to satisfy the approved debt service.

Adjustments

Item No.	Project Name	Total Amount Requested	Total Amount Adjusted	Total Amount Approved
2	City Heights Tax Allocation Bonds, Series 1999 A	\$ 431,654	\$ 0	\$ 431,654
3	City Heights Tax Allocation Bonds, Series 1999 B	1,600,000	0	1,600,000
4	City Heights Tax Allocation Bonds, Series 2003 A	445,924	0	445,924
18	North Bay Tax Allocation Bonds, Series 2000	911,524	0	911,524
19	North Park Tax Allocation Bonds, Series 2000	491,006	0	491,006
20	North Park Tax Allocation Bonds, Series 2003 A	539,714	0	539,714
21	North Park Tax Allocation Bonds, Series 2003 B	259,332	0	259,332
64	Centre City Tax Allocation Bonds, Series 1999 A	6,133,638	0	6,133,638
66	Centre City Tax Allocation Bonds, Series 1999 C	1,279,538	0	1,279,538
67	Centre City Tax Allocation Bonds, Series 2000 A	456,780	0	456,780
68	Centre City Tax Allocation Bonds, Series 2000 B	1,863,408	0	1,863,408
69	Centre City Tax Allocation Bonds, Series 2001 A	4,750,888	0	4,750,888
69	Centre City Tax Allocation Bonds, Series 2001 A Non-Callable	0	1,525,000	1,525,000
70	Centre City Tax Allocation Bonds, Series 2003 A	585,510	0	585,510
71	Centre City Tax Allocation Bonds, Series 2004 A	5,126,250	(3,135,948)	1,990,302
72	Centre City Tax Allocation Bonds, Series 2004 C	2,247,638	(2,247,638)	0
73	Centre City Tax Allocation Bonds, Series 2004 D	728,698	(728,698)	0
77	Horton Plaza Tax Allocation Bonds, Series 2000	1,602,610	(1,602,610)	0
78	Horton Plaza Tax Allocation Bonds, Series 2003 A	1,246,728	(1,246,728)	0
79	Horton Plaza Tax Allocation Bonds, Series 2003 B	562,346	(562,346)	0
80	Horton Plaza Tax Allocation Bonds, Series 2003 C	808,650	(808,650)	0
91	Mount Hope Tax Allocation Bonds, Series 1995 A	94,982	(94,982)	0
92	Mount Hope Tax Allocation Bonds, Series 2002 A	152,750	(152,750)	0
Total		\$32,319,568	\$(9,055,350)	\$23,264,218

- Item Nos. 6, 7, 8, 9, 10, 11, 12, 13, 16, 22, 23, 24, 25, 74, 75, 76, 88, 89, 90, 97 and 98 – Tax Allocation Bond debt service. Finance continues to approve these items. The Agency requested a Meet and Confer seeking clarification of Finance approval of these items. We note, none of these items were denied, nor were any amounts adjusted from the Agency's submitted ROPS 16-17. However, to clarify, the Agency requested a total of \$29,276,323 for these items and that request is approved.

We note that the Agency requested RPTTF funding for debt service payments due for the entire ROPS 16-17 twelve-month period. Our review indicates that the bond indenture requires all tax revenues to be deposited until the full year's bond debt service is covered. Therefore, from the \$29,276,323, Finance notes that the approved amount includes debt service payment reserves totaling \$21,478,201.

Pursuant to HSC section 34183 (a) (2) (A), debt service payments have first priority for payment from distributed RPTTF funding. As such, the additional \$21,478,201 requested to be held in reserve along with the amounts required for the current ROPS period must be transferred upon receipt to the bond trustee(s). The amounts approved for debt service payments on this ROPS are restricted for that purpose and are not authorized for other ROPS items. Future requests to fund these debt service items again will be denied unless insufficient RPTTF was received to satisfy the approved annual debt service payments.

- Item Nos. 451 and 452 – Property Maintenance totaling \$167,692 requested for ROPS 16-17 with a total outstanding balance of \$618,154. Finance no longer denies these items. Finance previously determined that based on our approval of the Agency's Long-Range Property Management Plan (LRPMP) on October 15, 2015, the property associated with these items should have transferred to the City of San Diego (City) as future development. During the Meet and Confer the Agency contended that, pursuant to the LRPMP, this property will not be transferred to the City until the expiration of the lease agreement between the former redevelopment agency and San Diego Theaters, Inc. (Lease) on July 25, 2023. Finance has determined that the Lease is an enforceable obligation and until such time as the Lease expires, the Agency is responsible for the requirements of the Lease including insurance on the property. Therefore, these items are eligible for RPTTF on this ROPS in the total amount of \$167,692.
- Item No. 467 – Project Management Costs totaling \$3,635,000 payable from RPTTF. Finance continues to deny these items. The Agency received a Finding of Completion on December 2, 2013. While the Agency is authorized to expend excess pre-2011 bond proceeds under HSC section 34191.4 (c)(1), the use of excess bond proceeds does not constitute enforceable obligations as per HSC section 34171 and therefore, do not create further enforceable obligations. As such, the Agency's request to fund project management costs incidental to the use of excess bond proceeds is not eligible for funding out of RPTTF. Finance notes that to the extent allowable, the Agency should use available bond proceeds to fund project management costs and should request such funding on a ROPS.

In addition, per Finance's letter dated April 27, 2016, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 627 – Naval Training Center Section 108 Loan in the amount of \$6,033,044 is partially approved in the amount of \$2,023,637. The Agency requested the entire remaining loan balance as they were planning to enter into talks with Housing and Urban Development to defease this loan. However, as the Agency has yet to request the defeasement or been provided with an estimated cost for the defeasement, Finance cannot approve the expenditure of the entire loan amount. In addition, the ROPS should only list the minimum amounts owed for each obligation.

As the loan remains an enforceable obligation of the Agency, \$2,023,655 is approved to bring the loan current and make the following payments up to the ROPS 16-17 period.

Fiscal Year	Amount Due
2013 – 14	\$ 505,827
2014 – 15	506,831
2015 – 16	505,685
2016 – 17	505,312
Total Due	\$ 2,023,655

Therefore, the excess request of \$4,009,389 (\$6,033,044 - \$2,023,637) is not approved.

- Item Nos. 631 and 632 – Affordable Housing Public Improvements funded with \$1,197,700 in Bond Proceeds. The Agency received a Finding of Completion on December 2, 2013 and is allowed to expend bond proceeds derived from bonds issued prior to January 1, 2011 (pre-2011 bond proceeds) in a manner consistent with the bond covenants. Our approval is specifically limited to the use of excess pre-2011 bond proceeds pursuant to HSC section 34191.4 (c) (1). Such approval; however, should not be construed as approval of the project itself as an enforceable obligation.
- Claimed administrative costs exceed the allowance by \$733,536. HSC section 34171 (b) limits the fiscal year 2016-2017 administrative expenses to three percent of property tax distributed to the Agency or \$250,000, whichever is greater. The San Diego County Auditor-Controller's Office distributed \$108,169,482 of RPTTF in the ROPS 15-16 period. However, the Agency's ROPS 15-16 distributed amount of \$3,820,691 in Administrative Cost Allowance (ACA) and \$500,000 in total City Loan Repayments should be excluded from the ACA calculation. As a result, the ROPS 15-16 adjusted distributed RPTTF is \$103,848,791 (\$108,169,482 - \$3,820,691 - \$500,000). Since \$103,848,791 is greater than \$250,000, \$103,848,791 is multiplied by three percent, which leaves an allowable ACA of \$3,115,464.

The Agency requested \$2,984,472 from RPTTF funding and \$864,528 from Other Funds, totaling \$3,849,000 for their ROPS 16-17 ACA. Although \$3,849,000 is claimed, only \$3,115,464 is available pursuant to the cap. Therefore, \$733,536 (\$3,849,000 - \$3,115,464) of excess administrative cost is not allowed.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17.

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported

cash balances on an ongoing basis. 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 enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is \$85,033,587 as summarized in the Approved RPTTF Distribution Table on Page 7 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (ROPS B period) based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

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

This is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-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, Satveer Ark, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

Mr. Reese A. Jarrett
May 17, 2016
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cc: Mr. David Graham, Deputy Chief Operating Officer, City of San Diego, San Diego City
Ms. Wanda Nations, Principal Accountant, Civic San Diego
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County

Attachment

Approved RPTTF Distribution For the period of July 2016 through June 2017			
	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	\$ 49,140,120	\$ 50,342,270	\$ 99,482,390
Requested Administrative RPTTF	1,474,204	1,510,268	2,984,472
Total Requested RPTTF on ROPS 16-17	50,614,324	51,852,538	\$ 102,466,862
Adjustment to Agency Requested RPTTF			
Item No. 69	1,525,000		
Item No. 71	0	(3,135,948)	(3,135,948)
Item No. 72	(531,319)	(1,716,319)	(2,247,638)
Item No. 73	(174,349)	(554,349)	(728,698)
Item No. 77	(196,305)	(1,406,305)	(1,602,610)
Item No. 78	(133,364)	(1,113,364)	(1,246,728)
Item No. 79	(63,673)	(498,673)	(562,346)
Item No. 80	(124,325)	(684,325)	(808,650)
Item No. 91	(7,491)	(87,491)	(94,982)
Item No. 92	(76,375)	(76,375)	(152,750)
Total RPTTF adjustments	217,799	(9,273,149)	\$ (10,580,350)
Total RPTTF requested	49,357,919	41,069,121	88,902,040
<u>Denied Items</u>			
Item No. 467	(1,817,500)	(1,817,500)	(3,635,000)
Item No. 627	(4,009,389)	0	(4,009,389)
	(5,826,889)	(1,817,500)	(7,644,389)
Total RPTTF authorized	43,531,030	39,251,621	\$ 81,257,651
Total Administrative RPTTF requested	1,474,204	1,510,268	2,984,472
Administrative costs in excess of the cap (see Admin Cost Cap table below)	0	(733,536)	(733,536)
Total Administrative RPTTF authorized	1,474,204	776,732	\$ 2,250,936
Total RPTTF approved for distribution	45,005,234	40,028,353	\$ 85,033,587

Administrative Cost Allowance Cap Calculation	
Actual RPTTF distributed for fiscal year 2015-16	\$ 108,169,482
Less sponsoring entity loan and Administrative RPTTF	4,320,691
Actual RPTTF distributed for 2015-16 after adjustment	103,848,791
Administrative Cap for 2016-17 per HSC section 34171 (b)	3,115,464
ROPS 16-17 Administrative RPTTF after Finance adjustments	3,849,000
Administrative Cost Allowance in excess of the cap	\$ (733,536)