



REVISED

June 12, 2013

Ms. Leslie Fritzsche, Senior Project Manager
City of Sacramento Successor Agency
915 I Street
Sacramento, CA 95814

Dear Ms. Fritzsche:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated May 17, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Sacramento Redevelopment Successor Agency (Agency) submitted ROPS 13-14A to Finance on March 13, 2013 for the period of July through December 2013. Finance issued a determination letter on April 26, 2013. 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 May 8, 2013.

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

- Item Nos. 17, 41, 64, 114, 136, 223, 258, 313 and 332 – Housing Monitoring costs for various housing projects totaling \$30,168. Finance continues to deny these items. Previous statutory housing obligations associated with the former redevelopment agencies (RDA) are not enforceable obligations. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the Housing Authority of the City of Sacramento assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.
- Item Nos. 24, 53, 87, 169, 235, 281, and 341 – Property Maintenance costs totaling \$59,400. Finance no longer objects to these items. These items were originally denied as the Agency had listed duplicate contracts for the Property Holding costs and Property Maintenance costs for the same project areas. During the Meet and Confer process, the Agency provided clarification to substantiate that these were independent costs unrelated to each other and were not duplications. Therefore, these items are enforceable obligations and are eligible for RPTTF funding.

- Item No. 29 – Globe Mills Project in the amount of \$6,481,462. Finance no longer objects to this item. This item was originally denied as the agreement with the developer stated that the developer is obligated to make the debt service payment for the Housing and Urban Development (HUD) loan. During the Meet and Confer process, the Agency provided additional information including an amendment that changed the requirement for the developer. According to the first amendment dated July 2006, the developer is not responsible for the HUD loan payment until month number 432 or 2027. The staff report and resolution signed at the time of the amendment states that the Agency will be responsible to pay the debt service payment for the HUD loan until 2027. Therefore, this item is an enforceable obligation and is eligible for RPTTF funding.
- Item Nos. 62 and 63 – Deposit Liabilities for various payees payable from Other Funds totaling \$23,517. Finance no longer objects to these items. These items were originally denied because allocating funds for unknown contingencies is not an allowable. However, the Agency requested funding for these obligations on ROPS for the periods July through December 2012 (ROPS II) and January through June 2013 (ROPS III) for the same amounts. The Agency is required to retain these deposits until specific events occur within the underlying agreements. If the specified events occur, the Agency will be required to make payment for these deposits. These items will be approved for possible payment during this period. However, they are subject to further review in future ROPS to ensure the requirement still exists.
- Item No. 71 – Environmental Remediation costs in the amount of \$26,185 payable from Reserve Funds. Finance continues to deny this item. It is our understanding that the contract between the Agency and Nichols Consulting Engineers entered into on August 2, 2010 has been amended twice since the cut-off date of June 27, 2011. HSC section 34163 (c) (1) prohibits an agency from renewing or extending terms of agreements for any purpose after June 27, 2011. The contract is no longer valid as the original contract expired on December 31, 2011. Therefore, this item is not an enforceable obligation and the request to expend Reserves on this item is denied.
- Item No. 72 – Environmental Remediation costs in the amount of \$553,713. Finance continues to deny this item. It is our understanding that the Contractor will provide the remediation service at a cost not to exceed \$358,980 based on the review of the contract with Pacific States Environmental Contractor, Inc. (Contractor) entered into on June 28, 2011. However, pursuant to HSC section 34163 (b) prohibits a RDA from entering into contracts with any entity after June 27, 2011. Therefore, the amendments and associated costs relating to this item are not an enforceable obligations and not eligible for RPTTF funding.
- Item Nos. 75, 79, and 81 – Del Paso Nuevo Project Construction costs totaling \$1,297,550 payable from Bond Proceeds. Finance continues to deny these items. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding that the contracts for these items have not yet been awarded; therefore, these items are not eligible for bond funding at this time. Pursuant to HSC section 34191.4 (c), the Agency's request to use bond funds for these obligations may be allowable once the Agency receives a Finding of Completion (FOC) from Finance. Upon receiving a FOC, the Agency may be allowed to request funding beginning on ROPS 13-14B.

- Item No. 118 – Franklin Redevelopment Area in the amount of \$173,785 payable from Reserve Funds. Finance no longer objects to this item. During the Meet and Confer process, the Agency provided additional information. The original agreement had an ending date of December 2010 in the amount of \$175,000; however, a promissory note signed on December 31, 1999 extended the obligation to December 2015 in the amount of \$200,000 with a seven percent reduced interest rate. As a result, the installment payment due in December is \$57,928. The Agency is a party to the contract and the joint powers are considered a third party. Therefore, this contract is considered an enforceable obligation and eligible for funding from Reserves.
- Item Nos. 127, 154, and 159 – 700 K Street Project Loans totaling \$3.6 million payable from Reserve Funds (\$2,573,542) and Bond Proceeds (\$1,026,458) is approved for \$0 in expenditures for the ROPS 13-14A period. The Agency has not provided evidence that any of the amounts requested is due during the ROPS 13-14A period, as further explained below:

The Agency entered into a Development and Disposition Agreement (DDA) with 700 Block LLC on June 22, 2011 to convey property to the Developer solely for the purpose developing the property to eliminate low property value, impaired investment, and deficient buildings. Per Section 4.2 of the DDA, the Agency is not obligated to perform under the DDA unless and until evidence of project funding has been provided, including the Developer Equity. Per Exhibit 2 of the DDA, by December 2011, project funding was to be secured and the Developer should have secured construction financing. Provisions of Exhibit 2 of the DDA allow a one year extension to December 2012 if the Developer had not secured construction financing by December 2011; however, the Developer did not secure construction financing by December 2012.

On December 19, 2012, the Agency entered into an amendment with the Developer to extend the deadline to provide evidence of construction financing to December 2013. Although the Agency claims construction will begin July 2013, the Amendment indicates construction will not begin until July 2014. Per HSC section 34163 (c), the Agency is prohibited from amending or modifying existing agreements, obligations, or commitments with any entity. In addition, an Oversight Board Action approving the amendment was not submitted to Finance for review and approval. For these reasons, Finance previously determined the DDA amendment is not valid.

We note no significant progress has been established with the project, including the transfer of the property to the Developer or expenditure of any of the Agency funding outlined in the DDA and corresponding Commitment Letter including the Items listed requested for reserve and bond funds totaling \$3,600,000, nor any of the associated housing bonds totaling \$10,100,000.

In addition, the Agency's obligation to fund the project is contingent on the Developer's receipt of New Market Tax Credits (NMTC) from the Federal Government. Throughout the DDA and the Funding Commitment Letter, which sets forth the Agency's obligation to fund the project, the Agency and Developer acknowledge and agree that the NMTC necessary component of project funding. At this time, the Developer has not been approved for NMTC and is seeking other funding not outlined in the DDA. However, neither the DDA nor the Funding Commitment Letter allow for other funding sources to replace the NMTC, and thus trigger any of the Agency's obligations under the DDA.

Under the Funding Commitment Letter, the Agency's obligation to fund the project expires on June 30, 2013.

Until the expiration of the Agency's obligation to fund the project, this item is an enforceable obligation with no funds due at this time. Finance reserves the right to review these items again in future ROPS to determine if conditions triggering the Agency's obligations have commenced as scheduled.

If the Developer cannot secure the NMTC before July 1, 2013, Finance strongly urges the Agency's Oversight Board to consider declaring the Developer in default and terminating the DDA in the spirit of redevelopment dissolution and in accordance with HSC section 34177 (h), which requires the Agency to expeditiously wind down the affairs of the former redevelopment agency.

- Item No. 128 – 700 K Street Project Delivery costs in the amount of \$81,000. Finance continues to deny this item. This item is related to Item No. 127 and, as determined above, the Agency has no obligation to perform under the DDA at this time. Therefore, this item is not eligible for RPTTF funding at this time.
- Item Nos. 129, 132, 133, 138 through 150, 257, 261 through 266, and 333 – Various obligations totaling \$195,169 payable from Reserve Funds. These items were originally determined not eligible for funding on this ROPS and the Agency has until June 2013 to spend. The following is Finance's determination:
 - Item No. 129 – Consultant cost in the amount of \$86,684 payable from Reserve Funds. Finance continues to deny this item. This item is related to Item No. 127. The underlying agreements and any associated costs relating to the 700 K Street project are not enforceable obligations. Therefore, this item is not enforceable obligation and is not eligible for the requested funding on this ROPS.
 - Item Nos. 132, 133, 138 through 150, 257, 261 through 266, and 333 – Various obligations related to Deposit Liabilities totaling \$108,485, payable from Reserve Funds. These reserve balances were approved to be retained according to the Other Funds and Accounts Due Diligence Review (OFA DDR). Most deposit liability agreements require the amount to be held on-hand in case of redemption. The Agency states that they have to carry over these funds held as reserves on each subsequent ROPS until the developer/tenant's right to receive payment expires. Since the Agency has these funds on-hand and is not requesting RPTTF, this amount is approved to be expended if necessary during the ROPS 13-14A period. However, these items are subject to review on future ROPS to ensure the requirement to retain these reserves still applies.
- Item No. 134 – Docks Promenade Project in the amount of \$6,000. Finance continues to deny this item. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding that the contracts for this item have not yet been awarded. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item Nos. 137, 152, 153, 226 and 331 – Rental Subsidy Agreement Administration costs totaling \$16,240. Finance continues to deny these items. Previous statutory housing

obligations associated with the former redevelopment agencies (RDA) are not enforceable obligations. HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the Housing Authority of the City of Sacramento assumed the housing functions, the administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.

- Item No. 167 – Supplemental Educational Revenue Augmentation Fund (SERAF) Loan in the amount of \$4 million is not allowed at this time. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the LMIHF shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14A technically falls within fiscal year 2013-14, the repayment of these loaned amounts is subject to the repayment formula outlined in HSC section 34176 (e) (6) (B). HSC section 34176 (e) (6) (B) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, the Agency may be able to request funding for loans beginning with ROPS 14-15A.
- Item No. 170 – Boating & Waterways Loan in the amount of \$615,581 payable from Reserve Funds. These Reserve Funds pertain to RPTTF funding approved in ROPS III that was not expended during the ROPS III period. Pursuant to HSC 34177 (I) (C) (3), the ROPS is forward looking to the next six months. Since this obligation is not payable until August of each year, the Agency should have requested RPTTF on ROPS 13-14A. However, because this item was approved by Finance for RPTTF funding in ROPS III, Finance is approving the use of Reserve Funds for ROPS 13-14A.
- Item No. 199 – Shasta Hotel Rental Subsidy Agreement in the amount for \$1.25 million. Finance continues to deny this item. Pursuant to HSC 34163 (c) (1) prohibits an Agency from renewing or extending terms of agreements for any purpose after June 27, 2011. The Agency did not provide sufficient documentation to support that this item is an obligation of the Agency to make the local match contribution. In addition, this contract is renewed on an annual basis. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 219 – Environmental Remediation Project Delivery costs in the amount of \$30,808. Finance continues to deny this item. It is our understanding that the contract for the environment remediation service has not been awarded, consequently, the project delivery cost associated with the project are not allowed. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding.
- Item No. 224 – Environmental Remediation costs in the amount of \$50,000 payable from Reserve Funds. Finance continues to deny this item. The Agency has requested authority to spend reserves for this item; however, these costs are associated with Item No. 219, which is denied as the Agency does not have a contract in place. Therefore, this item is not eligible for expenditure during the ROPS 13-14A period. With this denial,

the Agency can use an additional of \$50,000 in Reserve Funds for other enforceable obligations.

- Item No. 255 – Broadway Triangle LLC loan in the amount of \$2,270,704 payable from Reserve Funds. This item was originally denied as the funds were required to be remitted to the affected taxing entities pursuant to the OFA DDR. However, the Agency was allowed to retain \$2,803,668 for ROPS III period per Finance's OFA DDR Determination Letter dated June 6, 2013. The Agency contends this total amount may not be spent during the ROPS III period and would like spending authority during the ROPS 13-14A period. In addition, the Agency discovered an error in the accounting for this project; therefore, the remaining balance should be \$1,503,012. Finance will approve the Agency to use reserve funds not to exceed the approved amount. The use of reserve funds for the combination of both periods for ROPS III and ROPS 13-14A shall not exceed \$2,270,704.
- Item No. 269 – Broadway Triangle, LLC (Developer) Loan agreement in the amount of \$2,547,522 payable from Bond Proceeds. Finance no longer objects to this item. It is our understanding that the Construction Loan Agreements between the former RDA and the Developer entered into on June 22, 2011 allowed the former RDA to loan a total of \$6,638,000 to the Developer for the project. The Agency previously requested \$3,670,488 in ROPS II to be expended during that period, but only \$1,078,201 was expended leaving an outstanding obligation of \$2,592,287 to be funded. However, since ROPS III period is still ongoing, it is not possible to determine the residual amount of proceeds remaining for expenditure. Therefore, Finance is approving the Agency to use bond proceeds not to exceed the amount approved in each ROPS period and the original agreement. The use of bond proceeds for the combination of both periods for ROPS III and ROPS 13-14A shall not exceed \$2,547,522.
- Item No. 273 – Broadway Triangle, LLC (Developer) Grant Agreement in the amount of \$914,693 payable from Bond Proceeds. Finance no longer objects to this item. It is our understanding that the Conditional Grant Agreement between the former RDA and the Developer entered into on June 22, 2011 allowed the former RDA to grant \$1,362,136 to the Developer for the project. The Agency previously requested \$1,244,786 in ROPS II to be expended during that period, but only \$330,093 was spent leaving an outstanding obligation of \$914,693. However, since ROPS III period is still ongoing, it is not possible to determine the residual amount of proceeds remaining for expenditure. Therefore, Finance is approving the Agency to use bond proceeds not to exceed the amount approved in each ROPS period and the original agreement. The use of bond proceeds for the combination of both periods for ROPS III and ROPS 13-14A shall not exceed \$914,693.
- Item No. 384 – Securities Lending Program in the amount of \$430,826 payable from Reserve Funds. After further review, the Agency provided to Finance the calculation for the shared loss incurred in 2008 and the report that demonstrates the losses incurred by the City's Investment Pool, which the Agency is a part of, thus incurred an obligation to pay for losses incurred. Currently there is a settlement in the works between the parties and the Bank of New York. The Agency did not request to retain any Reserves for this item, thus the funding source changed from Reserves to RPTTF.

- Item Nos. 5, 20, 48, 83, 116, 161, 231, 277, 305, 319 and 337 – Bank of America Public Capital Corporation totaling \$124,742. Finance no longer objects to these items. These items were previously reclassified to administrative expenses and should be counted toward the cap. After further review, the description of the item states that these items are related to a tax exempt facilities lease. The lease payment is an agreement with multiple parties to purchase the property and to pay for the construction of the building improvements. The Agency contends that the improvements have already been completed and the building is not used by the Agency for daily operations. Therefore, these items should not be considered as part of the administrative allowance. These items are enforceable obligations and eligible for RPTTF funding.
- Claimed administrative costs exceed the allowance by \$20,572. HSC section 34171(b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Although, \$369,318 is claimed for administrative cost, only \$348,746 is available pursuant to the three percent limit. Therefore, \$20,572 of excess administrative cost is not allowed.
- Item No. 189 – 1993 Merged Downtown Tax Allocation Bonds in the amount of \$1,225,000; payable from Reserves. Per the Agency's request, Finance has changed the funding source for this item to RPTTF. As a result, the total ROPS 13-14A RPTTF funding requested for enforceable obligations has increased by \$1,225,000, from \$15,810,258 to \$17,035,258.
- Item 180 – Finance partially adjusted the funding source for Item 180. Finance determined \$2,623,542 in reserves is available to fund Item 180 based on the denial of Item Nos. 127, 154 and 224, as discussed in the previous bullets. Additionally, Finance will also increase the amount of Reserves to be retained in the OFA DDR by \$767,692 and approve \$1,257,679 in RPTTF funding to satisfy the requested amount of \$4,648,913 (\$2,623,542 in reserves + \$767,692 in reserves + \$1,257,679 in RPTTF) for the ROPS 13-14A period.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on 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 Agency's maximum approved RPTTF distribution for the reporting period is \$10,777,420 as summarized below:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 15,810,258
Plus: Funding source changed to RPTTF	
Item 189	\$ 1,225,000
Minus: Six-month total for items denied *	2,019,154
Minus: Funding source changed from RPTTF to Reserve Funds	
Item 180	3,391,234
Total approved RPTTF for enforceable obligations	<u>\$ 11,624,870</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	348,746
Minus: ROPS II prior period adjustment	<u>(1,196,196)</u>
Total RPTTF approved for distribution:	\$ 10,777,420

*Please refer to Attachment A for itemized denied items

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. The amount of RPTTF approved in the above table includes the prior period adjustment that was self-reported by the Agency. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the above table includes only the prior period adjustment that was self-reported by the Agency.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/>.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. 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 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 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 successor agency in the RPTTF.

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



STEVE SZALAY
 Local Government Consultant

cc: Mr. Dennis Kauffman, Accounting Manager
 Mr. Carlos Valencia, Senior Accounting Manager, County of Sacramento
 California State Controller's Office

Attachment A

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 15,810,258
Plus: Funding source changed to RPTTF	
Item 189	\$ 1,225,000
Minus: Six-month total for items denied	
Item 17	657
Item 41	448
Item 64	1,438
Item 72	553,713
Item 114	1,318
Item 128	40,500
Item 134	3,000
Item 136	6,994
Item 137	1,624
Item 152	1,624
Item 153	1,624
Item 167	1,333,333
Item 199	50,000
Item 219	15,404
Item 223	1,271
Item 226	1,624
Item 258	1,713
Item 313	730
Item 331	1,624
Item 332	515
Minus: Funding source changed from RPTTF to Reserve Funds	
Item 180	3,391,234
Total approved RPTTF for enforceable obligations	<u>\$ 11,624,870</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	348,746
Minus: ROPS II prior period adjustment	<u>(1,196,196)</u>
Total RPTTF approved for distribution:	\$ 10,777,420