DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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November 7, 2013

Ms. Sally Oerth, Deputy Director
City and County of San Francisco
One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

Dear Ms. Oerth:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City and County of San Francisco Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 23, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations for the reasons specified:

- Item No. 177 – Hunters View Phase II-III Loan Agreement in the amount of $3,768,243. The Agency is requesting funding totaling $21,775,225. Of this amount, Agency requested $17,128,434 in bond proceeds, $1,042,804 in reserve balances, $1,496,598 in other funds, and $2,107,389 in RPTTF. The Tax Increment Loan Agreement dated April 19, 2011 states that the loan amount is not to exceed $31,406,982. The Agency received authority for $13,400,000 on ROPS 13-14A, for a remaining balance of $18,006,982. With the request listed on ROPS 13-14B, the funding exceeds the maximum loan amount by $3,768,243. Therefore, Finance denies $2,107,389 in RPTTF, $1,496,598 in other funds, and $164,256 in bond funds (totaling $3,768,243). Finance is partially approving the Agency's request for $16,964,178 of bond funds and $1,042,804 of reserve balances.

- Item No. 235 – 200 Sixth Street Construction Loan Funding in the total amount of $19,500,000. The Agency is requesting $1,100,000 in RPTTF. The Agency indicates that this is future funding required to satisfy its replacement housing obligation. It is our understanding that contracts for this line item have not yet been awarded. Therefore, this item is not an enforceable obligation as defined in HSC section 34171 (d) and is not eligible for RPTTF funding.

- Item No. 364 – Bond Trustee Fees in the amount of $5,365. The documentation provided to Finance reflects that the Agency's obligation is $37,504 annually, for which the Agency received authority for $21,694 in ROPS 13-14A. Although the balance is

$16,635, the Agency has requested $22,000 in RPTTF funding on ROPS 13-14B. This exceeds the Agency's obligation by $5,365, which is not eligible for RPTTF funding.

- Claimed Administrative Costs exceed the allowance by $57,012. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. The San Francisco Auditor-Controller (CAC) distributed $1,121,948, thus leaving a balance of $2,378,988 available for the January through June 2014 period. Although $2,436,000 is claimed for administrative cost, only $1,121,948 is available pursuant to the cap. Therefore, $57,012 of excess administrative cost is not allowed.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to 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.

Based upon a detailed analysis of the funds authorized for restriction in the Low and Moderate Income Housing Fund and Other Funds and Accounts Due Diligence Reviews (DDR), we have determined that multiple obligations for which restriction of funds was authorized in the DDRs continue to have unexpended reserves. However, the Agency's ROPS 13-14B reflects the Agency's consolidation of multiple lines items associated with administrative operations into four, inhibiting Finance's ability to track the reserved balances appropriately. Additionally, the Agency further states that for some of the obligations there exists an overlap wherein the costs for a line item are being split into multiple lines on the ROPS 13-14B which, absent a bridging document, cannot be discerned by Finance. Therefore and if necessary, reclassification of these reserves is being deferred until such time as Finance and the Agency can work together to ensure correct allocation of available reserve balances to the appropriate obligation.

During conversations with our analyst, the Agency has requested the following reclassification:

Item No. 345 – Tax Allocation Bond Administrative Costs (ALL), Project Management Costs in the amount of $300,000. The Agency indicated that services provided in the context of a new bond issuance could be paid for out of the bond proceeds, and $300,000 could therefore be moved from the RPTTF column to the Bond Proceeds column.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below considers the prior period adjustment that was self-reported by the Agency, which is zero. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the 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 table below includes no prior period adjustment as was self-reported by the Agency.

Except for the items denied in whole or in part as enforceable obligations or for the items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved RPTTF distribution for the reporting period is $80,069,112 as summarized on next page:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		81,202,878
Total RPTTF requested for administrative obligations		2,436,000
Total RPTTF requested for obligations	**$**	**83,638,878**
Total RPTTF requested for non-administrative obligations		**81,202,878**
Denied Items		
Item No. 177		(2,107,389)
Item No. 235		(1,100,000)
Item No. 364		(5,365)
Reclassified Item		
Item No. 345		(300,000)
Total RPTTF approved for non-administrative obligations		**77,690,124**
Total RPTTF requested for administrative obligations		**2,436,000**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**2,378,988**
Total RPTTF approved for obligations		**80,069,112**
ROPS III prior period adjustment		0
Total RPTTF approved for distribution	**$**	**80,069,112**
Administrative Cost Cap Calculation		
Total RPTTF for 13-14A (July through December 2013)		39,007,748
Total RPTTF for 13-14B (January through June 2014)		77,690,124
Total RPTTF for fiscal year 2013-14	**$**	**116,697,872**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)		3,500,936
Administrative allowance for 13-14A (July through December 2013)		1,121,948
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**$**	**2,378,988**

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. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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

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

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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 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 HSC section 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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Tiffany Bohee, Exective Director, City and County of San Francisco
Mr. James Whitaker, Property Tax Manager, San Francisco County
California State Controller's Office