DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 14, 2013

Ms. Laura Rocha, Finance Director
City of San Marcos
1 Civic Center Drive
San Marcos, CA 92069

Dear Ms. Rocha:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Marcos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 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. 45 – Low and Moderate Income Housing Fund (LMIHF) Loan Repayment in the amount of $47,775 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 13-14B technically falls within fiscal year 2013-14, the repayment of this loaned amount 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 the repayment of LMIHF loans beginning with ROPS 14-15A.

- Claimed Administrative Costs exceed the allowance by $709. 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 Diego Auditor-Controller (CAC) distributed $407,531 for the July through December 2013 period, thus leaving a balance of $494,110 available for the January through June 2014 period. Although $494,819 is claimed for administrative cost, only $494,110 is available pursuant to the cap. Therefore, $709 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 Redevelopment Property Tax Trust Fund (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. The Agency reported at June 30, 2013, an available other funds balance totaling $440,152 with no anticipated other funds expenditures during the ROPS 13-14A period.

Therefore, the funding source for the following items are being reclassified to the other funds totaling $440,152 in the amounts specified below:

- Item No. 48 – Agency Administration/Operations in the amount of $96,033. The Agency requests $96,033 of non-administrative RPTTF; however, Finance is reclassifying $96,033 to other funds. Therefore, Finance is approving the use of other funds in the amount of $96,033 for Item No. 48.

- Item No. 50 – Contract for Consulting Services in the amount of $233. The Agency requests $2,800 of non-administrative RPTTF; however, Finance is reclassifying $233 to other funds. Therefore, Finance is approving non-administrative RPTTF in the amount of $2,567 and the use of other funds in the amount of $233 for Item No. 50.

- Item No. 51 – Agency Administration/Operations in the amount of $96,033. The Agency requests $96,033 of non-administrative RPTTF; however, Finance is reclassifying $96,033 to other funds. Therefore, Finance is approving the use of other funds in the amount of $96,033 for Item No. 51.

- Item No. 54 – Agency Administration/Operations in the amount of $96,033. The Agency requests $96,033 of non-administrative RPTTF; however, Finance is reclassifying $96,033 to other funds. Therefore, Finance is approving the use of other funds in the amount of $96,033 for Item No. 54.

- Item No. 57 – Agency Administration/Operations in the amount of $98,820. The Agency requests $98,820 of non-administrative RPTTF; however, Finance is reclassifying $98,820 to other funds. Therefore, Finance is approving the use of other funds in the amount of $98,820 for Item No. 57.

- Item No. 59 – Contract for Consulting Services in the amount of $3,000. The Agency requests $3,000 of non-administrative RPTTF; however, Finance is reclassifying $3,000 to other funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. Therefore, Finance is approving the use of other funds in the amount of $3,000 for Item No. 59.

- Item No. 60 – Project Management Costs in the amount of $50,000. The Agency requests $50,000 of non-administrative RPTTF; however, Finance is reclassifying $50,000 to other funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. Therefore, Finance is approving the use of other funds in the amount of $50,000 for Item No. 60.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments)

associated with the January through June 2013 period. 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. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

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 $16,511,553 as summarized on next page:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		16,518,109
Total RPTTF requested for administrative obligations		494,819
Total RPTTF requested for obligations	**$**	**17,012,928**
Total RPTTF requested for non-administrative obligations		**16,518,109**
Denied Items		
Item No. 44		(47,775)
Total RPTTF approved for non-administrative obligations		**16,470,334**
Total RPTTF requested for administrative obligations		**494,819**
Reclassified Items to Other Funds		
Item No. 48		96,033
Item No. 50		233
Item No. 51		96,033
Item No. 54		96,033
Item No. 57		98,820
Item No. 59		3,000
Item No. 61		50,000
Total RPTTF approved for administrative obligations		**54,667**
Total RPTTF allowable for administrative obligations, including items reclassified to Other Funds (see Admin Cost Cap table below)		**494,110**
Total RPTTF approved for obligations		**16,525,001**
ROPS III prior period adjustment		(13,448)
Total RPTTF approved for distribution	**$**	**16,511,553**

Administrative Cost Cap Calculation		
Total RPTTF for 13-14A (July through December 2013)		13,584,358
Total RPTTF for 13-14B (January through June 2014)		16,470,334
Total RPTTF for fiscal year 2013-14	**$**	**30,054,692**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)		901,641
Administrative allowance for 13-14A (July through December 2013)		407,531
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**$**	**494,110**

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. Lydia Romero, Deputy City Manager, City of San Marcos
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office