DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 16, 2014

Mr. William Fulton, Director, Planning and Neighborhood Restoration Department
City of San Diego
1222 First Avenue, MS 501
San Diego, CA 92101-4154

Dear Mr. Fulton:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2014. 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 14-15A) to Finance on February 28, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 14, 2014. 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 1, 2014.

In our letter dated April 14, 2014 Finance denied and reclassified various items. The Agency contested the denied and reclassified items and provided additional documentation and information. Finance has completed its review of the specific items being disputed as follows:

- Item No. 84 – Convention Center Cooperation Agreement in the total amount of $224,070,688. Finance continues to deny this item. As previously stated, the Agency's Oversight Board (OB) Resolution 2014-01 was denied pursuant to Finance's March 25, 2014 determination letter. The Cooperation Agreement does not satisfy the criteria of HSC section 34191.4 (b) (1); therefore, is not eligible for Redevelopment Property Tax Trust Fund (RPTTF). The Agency's request for $4,830,996 of RPTTF is not allowed.

- Item Nos. 103 through 105 – Naval Training Center (NTC) Homeless Agreement in the amounts of $350,000, $390,000, and $1,150,000, respectively. Finance continues to deny these items at this time. The agreement related to these items is between the City of San Diego (City) and the Homeless Subcommittee; the Agency is not a party to the agreement. We note that the agreement lists several funding options to fulfill the City's obligation; therefore, we are unable to determine the Agency's actual obligations, if any, under the agreement. Therefore, the Agency's request totaling $1,890,000 of Reserve Balances is not allowed at this time. To the extent the Agency can support its obligations under the agreement and demonstrate that funds will be expended, this item may be relisted on future ROPS.

- Item No. 112 – NTC Steam Lines Undergrounding in the amount of $500,000. Finance continues to deny this item at this time. Sufficient documentation was not provided to

support this request. In addition, the Agency did not provide support that these funds would be paid during ROPS 14-15A; therefore, this item is not an enforceable obligation at this time. To the extent the Agency can support its obligations under the agreement and demonstrate that funds will be expended, this item may be relisted on future ROPS.

- Item 149 –College Grove Housing Enhancement Loan Program in the amount of $126,133. With the Agency's concurrence, Finance will remove this request for funding as this item was fully expended in the ROPS period of January through June 2014. Therefore, the Agency's request for $126,133 of Reserve Balances is not allowed.

- Item No. 169 – Cedar Gateway Affordable Housing Project in the amount of $8,035. The Agency is requesting Reserve Balances from the LMIHF DDR; however, there are no balances remaining for this obligation. Therefore, the Agency's request for $8,035 of Reserve Balances is not allowed. After the meet and confer, the Agency concurred with this denial.

- Item No. 179 – Villa Montezuma in the total amount of $275,000 is not an enforceable obligation. The Agency provided a Memorandum of Understanding (MOU) between the City, Centre City Development Corporation (CCDC), and the Agency dated from 2009. However, the MOU is not an enforceable obligation as defined in HSC section 34171 (d). In addition, the documentation provided is insufficient to support the requested amounts. Finally, the contracts associated with the MOU were not entered into prior to June 28, 2011. Therefore, this item is no an enforceable obligation and is not eligible for funding from Reserve Balances.

- Item No. 189 – Street Agreements totaling $3,850,000. Finance continues to deny this item at this time. The Agency concurs that there are currently no executed contracts for this item but contends that contracts for this item will be presented to the oversight board during ROPS 14-15A. Once contracts are approved by the oversight board, those oversight board actions should be submitted to Finance for review and approval and listed on future ROPS. However, at this time, this item is not an enforceable obligation as defined in HSC section 34171 (d) and is not eligible for RPTTF on this ROPS.

- Item No. 200 – Ballpark Village in the amount of $50,000. Finance continues to deny this item at this time. As indicated in the Agency's response to our original letter, no contracts are currently in place to support this item as an enforceable obligation pursuant to HSC section 34171 (d) (1). Therefore, the Agency's request for $50,000 of Reserve Balances is not allowed. To the extent the Agency enters into oversight board approved agreements for this item and the oversight board resolutions are approved by Finance, this item may be listed on future ROPS.

- Item Nos. 206 and 207 – Downtown Comprehensive Parking Plan Implementation in the amounts of $400,000 and $260,000, respectively, payable from Other Funds. Finance no longer denies these items; however, the approved amount is restricted to the actual surplus funds. As previously determined, Finance understands that the balances remaining after debt service, and maintenance and operations, are to be expended toward the Comprehensive Downtown Parking Plan prepared by the City and the Agency. These revenues received by the Agency appear to be restricted for specific use; however, it is not clear whether the funds requested are actual surplus as defined in the agreement. Therefore, the Agency is approved to expend Other Funds for these

items up to the actual amount of surplus funds. We note that in the prior period reconciliation to occur in the July through December 2015 period, the Agency may be required to demonstrate and support the actual surplus funds that were available to the Agency during the ROPS 14-15A period. Any amounts expended in excess of the surplus funds available will be denied and a prior period adjustment will be made to the Other Funds on the Report of Cash Balances.

- Item No. 221 – Valencia Business Park Exclusive Negotiation Agreement (ENA) in the amount of $350,000. The Agency provided a Reinstatement of and First Amendment to ENA executed May 4, 2011; however, the ENA is not binding as an enforceable obligation, and the intent of the ENA was to finalize the terms of a DDA, which did not occur. The additional documents provided from United States Department of Housing and Urban Development reflect an obligation of the City, and not the Agency.

  The Agency claims the HUD loan was awarded pursuant to an agreement between the City and the former redevelopment agency (RDA) where the Agency pledged to repay the loan. Based on our review of the City's U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Agreement and the Cooperation and Pledge Agreement, the principal security for the loan guarantee is a pledge by the City of its current and future Community Development Block Grant (CDBG) funds. Our review indicates that the RDA pledged tax increment generated by the project, excluding amounts required to be set aside in the Low and Moderate Income Housing Fund (LMIHF), as secondary security for the HUD Section 108 Loan Agreement between the City and HUD in addition to the City's CDBG funding. However, Finance continues to deny this item as the Agency has neither claimed, nor demonstrated that CDBG funds will be insufficient to cover the loan payment and that the Agency is required to pay the full amount. To the extent the City anticipates and can demonstrate that CDBG funds, as principal security, will be insufficient to make the repayment on the HUD Section 108 loan in any particular period, it should direct the Agency to place the shortfall amount of the loan repayment on a future ROPS. For these reasons, this item is currently not an enforceable obligation and is not eligible for funding on this ROPS.

- Item No. 246 – Property Maintenance for City Heights Properties in the amount of $172,000. Finance no longer denies this item for funding. Insufficient documentation had previously not been provided to support the amounts claimed. The Agency has provided a contract with the payee that reflects compensation in an amount not to exceed $75,000 for a three year term. With Agency concurrence, Finance will adjust the requested to the amount allowed amount on the contract provided. Therefore, the request for $172,000 of RPTTF will be adjusted by $97,000 down to $75,000 of RPTTF allowed.

- Item No. 251 – Morley Green Public Improvements in the amount of $58,000. Finance continues to deny this item. The Agency is requesting Reserve Balances from the Other Funds and Accounts (OFA) Due Diligence Review (DDR); however, the Agency did not provide any additional support or information during the meet and confer for the amount requested. Therefore, the Agency's request for $58,000 of Reserve Balances is not allowed.

  The Agency believes that because the funds were retained through the OFA DDR, this item is enforceable up to the amount retained. However, this statement is incorrect. OFA DDR funds were retained because the amount was approved for the July through

December 2012 (ROS II) or January through June 2013 (ROPS III) periods and the funds approved were part of the June 30, 2012 cash balances. To the extent the funds were not expended pursuant to approved ROPS during ROPS II or ROPS III, they must be relisted on future ROPS for review. In addition, the remaining balances are now available to fund other approved obligations

- Item No. 255 – Seventh and Market, Fire Station No. 2, and Other Approved Projects in the amount of $80,107. Finance continues to partially deny this item. The Agency did not provide additional information or documentation during the meet and confer supporting that the full amount approved during January through July 2014 ROPS (ROPS 13-14B) would not be expended during ROPS 13-14B. Therefore, as previously determined the contract with this payee was entered into on March 13, 2012, for an amount not to exceed $24,937 and amended on September 6, 2013, for a total amount not to exceed $40,783. The Agency expended $30,890 during the ROPS III period leaving a balance of $9,893 needed to retire this obligation. The Agency was authorized $50,000 of RPTTF funding in 13-14B. Therefore, the Agency has received in excess of its obligation in the amount of $40,107 ($50,000 - $9,893 needed to satisfy obligation) and the request for $80,107 ($90,000 - $9,893) of Reserve Balances is not allowed; however, the amount of $9,893 in Reserve Balances is allowed.

- Item No. 295 – Horton Plaza Park and Other Projects in the amount of $59,087. In the Agency's email of April 1, 2014, the Agency indicated that the payee is tasked to provide $19,580 of services during the upcoming ROPS period, and the balance is for potential tasks of other projects. Allocating funds for an unknown obligation is not an allowable use of funds. Therefore, Finance is partially approving your request and authorizing $19,580 of Reserve Balances. The excess of $39,388 ($58,968 - $19,580) of Reserve Balances and $119 of RPTTF, totaling $39,507, is not allowed. The Agency did not provide any additional information or documentation during the meet and confer to support reversing our previous determination.

- Item No. 398 – Harbor Drive Pedestrian Bridge in the total amount of $3,000,000. Finance continues to deny this item at this time. The Agency is requesting funds that may be payable as a result of claims for monetary damages. HSC section 34171 (d) (1) (D) includes settlements entered by a competent court of law as enforceable obligations. However, the Agency did not provide any additional information or documentation during the meet and confer indicating that a final settlement has been reached. Therefore, this line item is not an enforceable obligation and is not eligible for funding at this time. Once a final settlement is entered by a competent court, the Agency may relist this item on a future ROPS for review.

- Item No. 408 – Park to Bay Link in the amount of $174,000. Finance continues to deny this item. The Agency did not provide any additional information or documentation during the meet and confer to warrant change to our original determination. Therefore, as previously determined, there are no contracts in place and no documents available to support this item as an enforceable obligation pursuant to HSC section 34171 (d) (1). Therefore, the Agency's request for $80,000 of Reserve Balances and $94,000 of RPTTF funding is not allowed.

- Item No. 450 – Insurance Brokerage Commissions in the amount of $38,573. The Agency provided all current insurance invoices; however, these documents are

insufficient to support the requested amount because the invoices do not reflect whether a broker/agency fee is included. To the extent the Agency can provide suitable documentation, such as vendor invoices, that demonstrate commissions are actually paid to support the requested funding, the Agency may be able to obtain RPTTF funding on a future ROPS. The Agency's request for $38,573 of Other Funds is not allowed.

- Item No. 451 – Difference in Conditions (DIC) Insurance Coverage for Balboa Theatre in the amount of $78,582. Finance partially approves this item. A comparison to prior years' invoices reflects increases ranging from of two and one-half to four percent. Documentation provided by the Agency from the insurance account manager indicates the rates are expected to increase by five to ten percent. Based on previous invoices totaling $66,596, Finance has determined that $73,256 ($66,596 * 10%) is a more accurate estimate. Therefore, Finance approves this item for $73,256 and the remaining $5,326 ($78,582 - $73,256) is denied.

- Claimed administrative costs exceed the allowance by $309,853.
  HSC section 34171 (b) limits the fiscal year 2014-15 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. Although $2,214,377 is claimed for administrative cost, the Agency is only eligible to expend $2,045,577 during ROPS 14-15A. Therefore, $309,853 of excess administrative cost is not allowed.

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

During the meet and confer and a subsequent conversation with the Agency, the Agency concurred that Reserve Balances totaling at least $20,000,000 are available to fund enforceable obligations in the ROPS 14-15A period. The Agency requested the use of $9,271,996 on the ROPS 14-15A. Therefore, while some of the items funded from Reserve Balances are denied as indicated above, Finance will only reclassify Item No. 171 – Pinnacle, 15th & Island in the total amount of $4,701 at this time to ensure adequate funding for all items approved from Reserve Balances and Other Funds. Finance will continue to work with the Agency to reconcile the cash balances on future ROPS. To the extent these Reserve Balances and Other Funds are available on future ROPS, the Agency should request funding from those sources prior to requesting RPTTF.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment self-reported by the Agency. HSC section 34186 (a) also specifies 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 table below only includes the prior period adjustment self-reported by the Agency.

In addition to the CAC's PPA, based upon a review of the Agency's financial records, Finance determined the Agency possesses excess RPTTF balances in the amount of $904,640 as noted

in Finance's April 2, 2014 e-mail. Therefore, this will be added to the PPA reported by the CAC and reflected in the table below.

Except for items denied in whole or in part as enforceable obligations or for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is $51,707,721 as summarized in the following table:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		73,813,336
Total RPTTF requested for administrative obligations		2,214,377
Total RPTTF requested for obligations	**$**	**76,027,713**
Total RPTTF requested for non-administrative obligations		**73,813,336**
Denied Items		
Item No. 84		(4,830,996)
Item No. 189		(250,000)
Item No. 221		(350,000)
Item No. 246		(97,000)
Item No. 295		(119)
Item No. 408		(94,000)
Item No. 451		(5,326)
		(5,627,441)
Reclassified Item		
Item No. 171		(4,701,766)
		(4,701,766)
Total RPTTF authorized for non-administrative obligations	**$**	**63,484,129**
Total RPTTF requested for administrative obligations		**2,214,377**
Finance adjustment for excess administrative obligations		(309,853)
Total RPTTF authorized for administrative obligations (3% x $68,185,895)	**$**	**2,045,577**
Total RPTTF funding for obligations	**$**	**65,529,706**
County Auditor Controller ROPS 13-14A PPA		(12,917,345)
Finance Adjustment to ROPS 13-14A PPA		(904,640)
Total ROPS 13-14A PPA		(13,821,985)
Total RPTTF approved for distribution	**$**	**51,707,721**

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. During the ROPS 14-15A review, Finance requested financial records to support the cash balances reported by the Agency. Although Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will work with the Agency after the ROPS 14-15A review period to properly identify the Agency's cash balances that have already been authorized for ROPS 13-

14B. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

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

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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 section 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 Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Andrew Phillips, CFO, COO & Interim President of Civic San Diego
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office