DEPARTMENT OF FINANCE

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December 18, 2012

Mr. Tim McDermott, Finance Director
City of Santee
10601 Magnolia Avenue
Santee, CA 92071

Dear Mr. McDermott:

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 8, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santee Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 24, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 8, 2012. 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 November 7, 2012.

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 items being disputed.

- Item 7 – Project Management Agreement in the amount of $27.5 million. Finance no longer objects to the item; however, the requested amount for Redevelopment Property Tax Trust Fund (RPTTF) is reduced to $0. The agreement is between the former redevelopment agency (RDA), the City of Santee (City), and a third party. The Agreement was to devise a plan to finance, design, and construct infrastructure improvements within the redevelopment area. However, the Agreement is not specific as to the former RDA's obligation and the City's obligation under the Agreement. However, the former RDA's Board Resolution No. CDC 004-2011 appropriates $25 million of bond proceeds for the Prospect Avenue Improvements Project and $3.5 million of tax increment for the Riverview Improvements Project. Therefore, up to $25 million of bond proceeds is an enforceable obligation for the Prospect Avenue Improvements Project and up to $3.5 million of tax increment is an enforceable obligation for the Riverview Improvements Project. However, Finance already approved $4 million in the prior ROPS period from available Reserve Balances. Therefore, $0 in RPTTF remains to be approved in ROPS III, and the $905,000 requested to be distributed from Bonds is approved.

- Item 11 in the amount of $83,366 to repay a City loan. Finance continues to deny the item. The Agency contends the item is an enforceable obligation because the loan was necessary to pay unfunded administrative expenses from the July through December 2012 ROPS period as a result of the July 2012 true-up process. The July 2012 true-up

process was to collect residual pass-through payments owed to affected taxing entities for the January through June 2012 period, not to cause shortfalls in funding for the July through December 2012 period expenses.

Finance notes that pursuant to HSC section 34713 (h), the city, county, or city and county that authorized the creation of a RDA may loan or grant funds to a successor agency for administrative costs, enforceable obligations, or project-related expenses at the city's discretion. An enforceable obligation shall be deemed to be created for the repayment of those loans. However, the Agency does not have a loan agreement with the City. Once the Agency has entered into a loan with the City for purposes specified in HSC section 34173 (h) and subject to the Oversight Board's separate and distinct approval, the use and receipt of the loan funds should be reflected on a subsequent ROPS. Therefore, this item is not an enforceable obligation.

The Agency's maximum approved RPTTF distribution for the reporting period is: $1,618,939 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	$3,684,300
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 7	2,106,995
Item 11	83,366
Total approved RPTTF for enforceable obligations	$1,493,939
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	125,000
Total RPTTF approved:	$1,618,939

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the 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.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. 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 January 1 through June 30, 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 questioned on this ROPS or a preceding ROPS.

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. Keith Till, City Manager, City of Santee
Mr. Juan Perez, Senior Auditor and Controller Manager, San Diego County
Ms. Nenita DeJesus, Senior Auditor and Controller Accountant, San Diego County
California State Controller's Office