



April 11, 2013

Ms. Sally Oerth, Deputy Director
City and County of San Francisco Successor Agency
One South Van Ness Avenue
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 13-14A) to the California Department of Finance (Finance) on February 25, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, 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:

- Item No. 2 – Agency Admin Operations in the amount of \$969,000 of Redevelopment Property Tax Trust Fund (RPTTF). The Agency provided a list of projects pertaining to project staff personnel costs. Each project listed relates to loan agreements from bond issues which allow for payment or reimbursement of costs incurred with respect to the redevelopment project. HSC section 34177 (l) (1) (E) requires that RPTTF be requested to the extent that no other funding source is available. Therefore, bond proceeds should be used to cover project management costs for the associated project areas and this item is not eligible for RPTTF funding.
- Item No. 16 – Grant Agreement for Bayview Opera House Plaza in the amount of \$785,000 of bond proceeds. This agreement is between the San Francisco Municipal Transportation Agency, a component of the City of San Francisco, and the Agency. HSC section 34171 (d) (2) states agreements, contracts, or arrangements between the city that created the Agency are not enforceable obligation. The Agency indicated this funding is required as a match; however, Finance's review reflects it is for gap financing, separate from the match requirement previously required. Therefore, this item is not an enforceable obligation and is not eligible for RPTTF funding. Pursuant to HSC section 34191.4 (c), your request to use bond funds for these obligations may be allowable once the Agency receives a Finding of Completion from Finance.
- Item No. 85 – Mission Bay North Community Facilities District (CFD) #4 in the amount of \$23,600,000 of bond proceeds. The Agency is requesting to use bond proceeds to pay off the remaining CFD #4 bonds; however, these bonds are secured by special tax

revenue. The Agency does not have an obligation to pay off the CFDs with bond proceeds or tax revenues since they are secured by the special tax revenue. HSC section 34171 (d) (1) (E) requires that enforceable obligations be legally binding or enforceable agreements. As the Mission Bay bonds have not been approved or issued to repay this obligation, this is not an enforceable obligation at this time.

- Items No. 86 and 88 – Tax Increment Allocation Pledge Agreements totaling \$27,400,000 (\$11,280,000 and \$16,120,000, respectively) of RPTTF. Documentation provided by the Agency reflects that the use of the pledged tax increment is limited to making payments on indebtedness of the CFD, Tax Allocation Debt, or to pay or reimburse costs of infrastructure. Pursuant to these agreements, the Agency is obligated to provide their Trustee with their annual debt service requirements for allocation to the relevant Trustee Accounts. The Agency claims the remaining balance is required to be allocated toward a Contingency Account.

The Agency is requesting the full amount of net tax increment available for both the Mission Bay North and Mission Bay South project areas, without regard to the specific obligations for which the funds are to be expended. HSC section 34171 (d) (1) (A) does allow for debt service, reserve set-asides, and other payments required under the indenture; however, contingency accounts are not enforceable obligations. In addition, Finance was unable to determine how much of the requested amount meets the definition of an enforceable obligation as no documentation was provided to support the amounts required.

At this point, it is unclear to Finance that funding the Contingency Account is required by the Tax Increment Allocation Pledge Agreements. Therefore, while the agreement may be an enforceable obligation, the total amount requested for the ROPS 13-14A period is not supported and not eligible for RPTTF funding at this time. Additionally, we would expect the Agency to request a Meet and Confer on this issue to provide further clarification and have further discussions.

- Item No. 87 – Mission Bay South Owner Participation Agreement in the amount of \$35,000,000 of bond proceeds is partially denied. It is our understanding that the payment due is \$20,435,000, with an additional \$4,565,000 currently being reviewed. While this agreement is an enforceable obligation, the total outstanding obligation amount reported on this ROPS period does not agree with the amount due. Therefore, the excess \$10,000,000 over the \$35,000,000 requested for the ROPS 13-14A period is not supported and not eligible for funding.
- Item No. 351 – Tax Allocation Bond Debt Service Advance Payments Shortfall from ROPS III totaling \$28,627,163 of RPTTF is partially denied. As reported by Agency, full payments were made for the Spring and Fall 2012 debt service obligations during the ROPS I period. HSC section 34183 (a) (2) (A) sets forth the priority of the payments made by successor agencies for enforceable obligations. As debt service payments have first priority of payment, with other obligations paid only after those obligations have been satisfied, all RPTTF funding from ROPS III is assumed to have been applied to your debt service obligations. The ROPS III obligation for debt service was reported as \$96,266,619; however, the ROPS III distribution totaled \$75,457,795. This resulted in a deficit of \$20,809,824. Therefore, only \$20,809,824 of the \$28,627,163 requested for this line item is allowable, the remaining \$7,817,339 is not an enforceable obligation and is not eligible for funding on the ROPS.

- ROPS 13-14A requested \$13,037,924 in reserve funding for enforceable obligations. Because any unencumbered reserve funding will be remitted to the county auditor controller for distribution to the affected taxing entities as a result of both the Low Mod Income Housing Fund Due Diligence Review and Other Funds and Accounts Due Diligence Review, Finance is changing the funding source to RPTTF. As a result, the total ROPS 13-14A RPTTF requested for enforceable obligations is increased by \$13,037,924.
- Claimed administrative costs exceed the allowance by \$301,686. 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. As a result, the Agency is eligible for \$1,339,314 in administrative expenses. Although \$1,638,000 is claimed for administrative cost, Items No. 112 and 113 for Citizens Advisory Committee Meeting Food and Outreach total \$3,000 (\$1,200 and \$1,800, respectively) are considered administrative expenses and should be counted toward the cap. Therefore, \$301,686 of excess administrative cost is not allowed.

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. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, 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 \$12,569,145 as summarized below:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 66,783,166
Plus: Reserves reclassified as RPTTF	13,037,924
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 2	969,000
Item 86	11,280,000
Item 88	16,120,000
Item 112*	1,200
Item 113*	1,800
Item 351	7,817,339
Total approved RPTTF for enforceable obligations	\$ 43,631,751
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	1,339,314
Minus: ROPS II prior period adjustment	(32,401,920)
Total RPTTF approved for distribution:	\$ 12,569,145

*Reclassified as administrative cost

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 made based upon the expenditures 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 prior period adjustments self-reported in the Agency's prior period expenditure tab of the ROPS.

HSC section 34177 (a) (3) states that the Agency can only make payments listed on the ROPS, from the funds listed and authorized by Finance. However, the Agency elected to expend RPTTF on obligations for which RPTTF was not authorized and, in some cases, for obligations which were struck out on the ROPS II submitted to and approved by Finance in our May 25, 2012 determination letter. Additionally, numerous obligations for which the Agency received authorization to expend RPTTF had no payments made, or payments which exceeded, or were less than, the authorized RPTTF.

The authorized RPTTF expenditures as reported by Agency total \$20,801,195. Therefore, an adjustment of \$32,401,920 is being made, representing the difference between the RPTTF distribution of \$53,203,115 and the authorized expenditures. To avoid future adjustments against allowable RPTTF, it is incumbent upon the Agency to ensure that the obligations paid are consistent with the authority provided by Finance. As reflected in HSC section 34177 (a) (4), use of an alternate funding source other than that approved by Finance on the ROPS is allowed only with the prior approval of the oversight board.

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/](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.

Ms. Sally Oerth
April 11, 2013
Page 5

Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish extending to the left.

STEVE SZALAY
Local Government Consultant

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