December 17, 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

This letter supersede[s] the California Department of Finance’s (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 7, 2013. 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 Finance on September 23, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 7, 2013. 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 22, 2013.

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 No. 177 – Hunters View Phase II-III Loan Agreement in the amount of $3,768,243. Finance no longer denies this item. 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 funding. 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 initially denied $2,107,389 in RPTTF, $1,496,598 in other funds, and $164,256 in bond funds (totaling $3,768,243). During the Meet and Confer process, the Agency provided clarification and supporting documents showing that none of the funds approved during ROPS 13-14A have been expended and that the amounts requested are a carryover of the ROPS 13-14A amounts approved. Therefore, Finance is approving the Agency's request as originally presented in ROPS 13-14B.

- Item No. 235 – 200 Sixth Street Construction Loan Funding in the total amount of $19,500,000. The Agency is requesting $1,100,000 from the RPTTF. Finance continues to deny this item. The Agency indicates that this is future funding required to satisfy its replacement housing obligation. Finance initially denied this item as it was our
understanding that contracts for this line item have not yet been awarded. The Agency contended that the Agency retained this obligation pursuant to HSC section 34176 (a) and has not transferred it to the housing successor. However, obligations associated with the former redevelopment agency’s (RDA) previous statutory housing obligations are not enforceable obligations. Upon the transfer of the former RDA’s housing functions to the new housing entity, HSC section 34176 requires that “all rights, powers, duties, obligations and housing assets...shall be transferred” to the new housing entity. This transfer of “duties and obligations” necessarily includes the transfer of statutory obligations; to the extent any continue to be applicable. To conclude that such costs should be on-going enforceable obligations of the successor agency could require a transfer of tax increment for life – directly contrary to the wind down directive in ABx1-26/AB1484. Therefore, this item is not an enforceable obligation as defined in HSC section 34171 (d) and is not eligible for RPTTF funding.

In addition, per Finance’s letter dated November 7, 2013, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- 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.

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.

The Agency’s maximum approved RPTTF distribution for the reporting period is $82,233,513, as summarized in the table below:

<table>
<thead>
<tr>
<th>Approved RPTTF Distribution Amount</th>
<th>$83,638,878</th>
</tr>
</thead>
<tbody>
<tr>
<td>For the period of January through June 2014</td>
<td></td>
</tr>
<tr>
<td>Total RPTTF requested for non-administrative obligations</td>
<td>$81,202,878</td>
</tr>
<tr>
<td>Total RPTTF requested for administrative obligations</td>
<td>$2,436,000</td>
</tr>
<tr>
<td><strong>Total RPTTF requested for obligations</strong></td>
<td>$83,638,878</td>
</tr>
</tbody>
</table>

**Denied Items**

- Item No. 235
- Item No. 364
- Item No. 345

**Reclassified Item**

| Item No. 345 | (300,000) |

**Total RPTTF approved for non-administrative obligations**

<table>
<thead>
<tr>
<th>Total RPTTF approved for obligations</th>
<th>$82,233,513</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROPS III prior period adjustment</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total RPTTF approved for distribution</strong></td>
<td>$82,233,513</td>
</tr>
</tbody>
</table>

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:


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 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, Supervisor, or Mary Halterman, Lead Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

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