May 17, 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

This letter supersedes California Department of Finance’s (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 11, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City and County of San Francisco Successor Agency (Agency) submitted ROPS 13-14A to Finance on February 25, 2013 for the period of July through December 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 April 30, 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. 2 – Agency Administrative Operations in the amount of $969,000 of Redevelopment Property Tax Trust Fund (RPTTF). The Agency provided a list of project staff costs related to projects funded with bond issues through loan agreements. HSC section 34177 (l) (1) (E) requires that RPTTF be requested to the extent that no other funding source is available. Therefore, Finance originally determined bond proceeds should be used to cover project management costs requested for this item. During the meet and confer, the Agency provided a revised list and agreed to fund $648,670 from bond proceeds and $320,330 from RPTTF. The Agency contends remaining bond proceeds available are committed towards construction costs for two projects. Finance approves the Agency’s revised request to fund $320,330 from RPTTF funding and $648,670 from bond proceeds. In the future, the Agency should allocate project staff cost for payment from available bond proceeds prior to requesting for RPTTF.

- Item No. 85 – Mission Bay North Community Facilities District (CFD) #4 in the amount of $23,600,000 of bond proceeds. Finance continues to deny this item. According to the Agency, the request for expenditure authority during this ROPS period is in anticipation of Agency’s issuance of refunding bonds to defease the CFD #4 bonds. The Agency contends that it is contractually obligated to issue new bonds since the developer has requested the Agency to do so. Pursuant to HSC section 34177.5 (f) the issuance of
new bonds are subject to the approval of the oversight board (OB), prior to submittal to Finance for approval. There is no preliminary bond document for review, and therefore the amount and terms regarding the refunding of the CFD #4 bonds are unknown. Because the issuance of the refunding bonds has not been approved by the OB and funding is not available to be approved for spending authority by Finance, this item continues to not be an enforceable obligation at this time.

- Item Nos. 86 and 88 – Tax Increment Allocation Pledge Agreements in the amount of $27.4 million of RPTTF. These items were originally denied by Finance because the Agency was not able to provide sufficient documentation to support the amounts requested. During the Meet and Confer, the Agency provided further clarification and additional documentation to support the estimates of RPTTF requested and its restriction on use pursuant to the pledge agreements. The Agency contended the developer has valid and verifiable claims of costs for the Mission Bay project areas totaling $65.41 million, consisting of $20.43 million in approved expenditures awaiting payment, $5.57 million currently being reviewed and $39.41 million estimated by the developer. The Agency also provided infrastructure cost projections for the next two fiscal years.

Furthermore, of the $27.4 million requested, only $2.4 million is the estimated RPTTF (non-Housing) to be received for the Mission Bay project areas during this ROPS period pursuant to the pledge agreements. The remaining $25 million ($10 million under Item No. 86 and $15 million under Item No. 88) is related to estimates of one-time anticipated tax increment revenue to be received for corrections of Mission Bay tax rate area miscalculations and backlog of supplemental assessment tax rates in prior years. As a result, the Agency is anticipating tax increment revenue due from those prior years for the Mission Bay project areas and is requesting spending authority for the estimated $25 million in additional revenue. Our understanding is that the actual amount to be received related to the projected $25 million, will be verified and approved by the County Auditor-Controller (CAC). Therefore, these items are approved to the extent of actual amount to be received by the Agency for the one-time anticipated revenue.

- Item No. 87 – Mission Bay South Owner Participation Agreement in the amount of $35,000,000 of bond proceeds. During the Meet and Confer, the Agency clarified that it is requesting to issue new bonds to pay for Mission Bay South infrastructure costs. The Agency contends that it is contractually obligated to issue new bonds since the developer has requested the Agency to do so. HSC section 34177.5 (f) requires that the issuance of new bonds shall be subject to the approval of the oversight board (OB), prior to submittal to Finance for approval. Since the issuance of the refunding bonds has not been approved by the OB and funding is not available to be approved for spending authority by Finance, this item continues to not be an enforceable obligation at this time.

- Item No. 351 – Tax Allocation Bond Debt Service Advance Payments Shortfall from ROPS III in the amount of $28,627,163 of RPTTF. The item continues to be mostly denied. The Agency contends it did not apply all RPTTF received to debt service obligations, since it needed to fund other enforceable obligations and administrative costs during the ROPS III period. Further, upon the CAC’s recommendation, the Agency will apply the entire ROPS III shortfall requested toward the fall debt service payment due in June 2013. During the meet and confer, the Agency revised the requested shortfall amount to $27,537,163, a reduction of $1,090,000 to account for ROPS III items that the Agency will not fund during ROPS III period.
HSC section 34183 (a) (2) (A) sets forth the priority of the payments to be made by successor agencies for enforceable obligations: debt service payments have first priority of payment, with other obligations paid only after those obligations have been satisfied. We maintain our decision that all RPTTF funding from ROPS III should first be applied to debt service obligations and continue to allow for $20,809,824 which is the difference between the reported debt service amount and actual ROPS III RPTTF distribution (96,266,619-75,457,795). The remaining difference of $6,727,339 (27,537,163-20,809,824), after the adjustment for deleted ROPS III items, continues not to be an enforceable obligation and is not eligible for funding on the ROPS.

- ROPS 13-14A requested $13,037,924 in reserve balance funding for certain line items. Because any unencumbered reserve balance cash was to be remitted to the CAC for distribution to the affected taxing entities as a result of both the Low Mod Income Housing Fund Due Diligence Review (LMIHF DDR) and Other Funds and Accounts Due Diligence Review (OFA DDR), Finance changed the funding source from reserve balance to RPTTF for Item Nos. 11, 19, 62, 84, 89, 90, 97, 108, 114, 137, 151, 177 and 191. As a result, the total ROPS 13-14A RPTTF requested increased by $13,037,924. The Agency is not contesting the funding reclassification to RPTTF for Item Nos. 11, 19, 62, 97, 108, 114, and 191 totaling $1,217,900. However, the Agency is contesting the funding reclassification to RPTTF for the following items:

  - Item Nos. 84, 89, and 90 totaling $1,927,500 in reserve balance funding. These items relate to the $6,308,262 balance requested to be retained in the OFA DDR. According to Finance’s OFA DDR meet and confer team, the Agency reduced the OFA balance retained to $2,453,065, which covered future obligations for Item Nos. 137 and 151. Since the Agency’s revised OFA DDR balance no longer includes balances retained for Item Nos. 84, 89, and 90, we maintain our original determination. In accordance with Finance’s OFA DDR final determination letter dated May 17, 2013, the request to use reserve balance funding totaling $1,927,500 for these items is not allowed and funding source remains RPTTF.

  - Item Nos. 137 and 151 totaling $325,000 in reserve balance funding. As noted in the bullet above, these items relate to the revised OFA DDR balance requested to be retained totaling $2,453,065. In accordance with Finance’s OFA DDR final determination letter dated May 17, 2013, the request to use reserve balance funding totaling $325,000 for these items is allowed.

  - Item No. 177 totaling $9,567,524. Finance originally changed the funding source from reserve balance to RPTTF. However, during the meet and confer the Agency requested to change the requested $9,567,524 to $0. Finance approves the Agency’s change for this item.

  - Item No. 161 totaling $7,856,717 in reserve balance funding. This item was not included in the original amount that Finance reclassified funding to RPTTF. During the meet and confer, the Agency requested to add reserve balance funding of $7,856,717 for this item, in addition to the RPTTF and bond proceeds funding amounts already requested on the ROPS. In accordance with Finance’s LMIHF DDR final determination letter dated May 17, 2013, the request to add reserve balance funding totaling $7,856,717 for this item is approved.
• Prior period adjustment (PPA) in the amount of $32,401,920. The Agency contends Finance miscalculated the authorized RPTTF expenditures of $20,801,195 from the $53,203,115 ROPS II RPTTF distribution amount due to the errors in Agency’s self-reported expenditures. According to the Agency, the main reason for the incorrect PPA was the misreporting of total debt service payments under Item Nos. GG1 and MBN1, instead of separately reporting each bond payment under the related line items. In addition, the Agency made minor revisions that reduced reported expenditures under Item Nos. HR11, RE-1, JRI-1, JRI-2, JRI-3, JRI-4, JRI-5, JRI-6, JRI-7 and increased the amount for Item No. HP1. Based on Finance’s review of the revised prior period payment schedule, Finance’s authorized expenditures are $51,593,646, consisting of $1,180,285 in administrative costs and $50,413,361 in RPTTF expenditures. Therefore, Finance has revised the PPA amount to $1,609,469, representing the difference between the RPTTF distribution of $53,203,115 and the Finance’s authorized expenditures.

• Administrative costs allowance has been updated to reflect Finance’s meet and confer determinations as it relates to RPTTF funded items. The claimed administrative costs no longer exceed the allowance. 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. Item Nos. 112 and 113 for Citizens Advisory Committee Meeting Food and Outreach total $3,000 ($1,200 and $1,800, respectively) are considered general administrative costs and continue to be reclassified. Although this reclassification increased administrative costs to $1,641,000, the administrative cost allowance has not been exceeded.

In addition, per Finance’s ROPS letter dated April 11, 2013, the following item continue to be denied and was not contested by the Agency:

• 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.

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. 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 July through December 2013. Finance’s determination is effective for this time period only and should not be conclusively relied on 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 Agency’s maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is $61,491,088 as summarized below:
<table>
<thead>
<tr>
<th>Approved RPTTF Distribution Amount</th>
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<tbody>
<tr>
<td>For the period of July through December 2013</td>
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<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>Total RPTTF funding requested for obligations</td>
</tr>
<tr>
<td>Adjustments for change in fund source or amount:</td>
</tr>
<tr>
<td>Reserve Balance to RPTTF*</td>
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<tr>
<td>Item 2 - RPTTF to Bond Proceeds</td>
</tr>
<tr>
<td>Item 351 - Requested amount reduced</td>
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<tr>
<td>Minus: Six-month total for items denied or reclassified as administrative cost</td>
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<tr>
<td>Item 112**</td>
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<td>Item 113**</td>
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<tr>
<td>Item 351</td>
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<tr>
<td>Total approved RPTTF for enforceable obligations</td>
</tr>
<tr>
<td>Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost</td>
</tr>
<tr>
<td>Minus: ROPS II prior period adjustment</td>
</tr>
<tr>
<td><strong>Total RPTTF approved for distribution:</strong></td>
</tr>
</tbody>
</table>

* Items 11, 19, 62, 84, 89, 90, 97, 108, 114 and 191
** 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. 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. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from Finance's correction to the Agency's revised self-reported prior period adjustment.

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/.

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.

Please direct inquiries to Beliz Chappuie, Supervisor or Cindie Lor, Lead Analyst at (916) 445-1546.

Sincerely,

[Signature]

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