



May 16, 2014

Ms. Laura Rocha, Finance Director
City of San Marcos
1 Civic Center Drive
San Marcos, CA 92069

Dear Ms. Rocha:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 16, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Marcos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on March 3, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 17, 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 7, 2014.

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 item being disputed, as further discussed below:

Item Nos. 4 through 6 – 2001 Revenue Bond Debt Service totaling \$941,334. Finance continues to partially deny this item. This item was partially denied because the Agency was not approved to retain a reserve for their subordinate bonds for the first half of the calendar year. The debt service schedule lists \$3,397,575 due for the bond year annual payment. The Agency already requested and was approved Redevelopment Property Tax Trust Fund (RPTTF) for debt service payments due for ROPS 13-14B period in the amount of \$1,698,846, leaving a remaining balance due of \$1,698,846 (\$3,397,575 – \$1,698,846).

However, the Agency requested \$2,640,177; therefore, the Agency requested \$941,334 (\$2,640,177 - \$1,698,846) in excess to create a reserve for the following ROPS period. During the Meet and Confer, the Agency identified that the senior bonds are secured by a pledge of and first lien on all of the Agency's tax revenues and there is insufficient RPTTF distributed during the January to June ROPS period to satisfy the annual debt service for the senior bonds, let alone funding for these subordinate bonds. Therefore, the Agency is requesting the annual amount of debt service this period. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the *following half* of the calendar year. Based on our review, the bond indenture does not require the requested reserve

in this period, and a request to fund payments due for the *first half* of the calendar year is not allowed. As such, the portion requested for reserves in the amount of \$941,334 continues to be denied. Finance suggests that the Agency request all bond debt service for the entire calendar year on ROPS 14-15B to ensure that the agency receives sufficient RPTTF in that calendar year.

The following is a breakdown per line item of the total excess denied:

- Item No. 4 – Requested RPTTF in the amount of \$376,534. As the Agency requested more than necessary, the requested amount will be reduced by the variance of \$376,534 (\$1,056,071 - \$679,537).
- Item No. 5 – Requested RPTTF in the amount of \$235,333. As the Agency requested more than necessary, the requested amount will be reduced by the variance of \$235,333 (\$660,044 - 424,711)
- Item No. 6–Requested RPTTF in the amount of \$329,467. As the Agency requested more than necessary, the requested amount will be reduced by the variance of \$329,467 (\$924,062 - \$594,595)

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. 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. The amount of Redevelopment Property Tax Trust Fund (RPTTF) approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

The Agency's maximum approved RPTTF distribution for the reporting period is \$17,417,344 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	17,976,336
Total RPTTF requested for administrative obligations	430,306
Total RPTTF requested for obligations	\$ 18,406,642
Total RPTTF requested for non-administrative obligations	17,976,336
<u>Denied Items</u>	
Item No. 4	(376,534)
Item No. 5	(235,333)
Item No. 6	(329,467)
	(941,334)
Total RPTTF authorized for non-administrative obligations	\$ 17,035,002
Total RPTTF requested for administrative obligations	430,306
Total RPTTF authorized for administrative obligations	\$ 430,306
Total RPTTF authorized for obligations	\$ 17,465,308
ROPS 13-14A prior period adjustment	(47,964)
Total RPTTF approved for distribution	\$ 17,417,344

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; 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 14-15A review period to properly identify the Agency's cash balances. 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 (j). 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.

Ms. Laura Rocha
May 16, 2014
Page 4

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: Ms. Lydia Romero, Deputy City Manager, City of San Marcos
Mr. Jon Baker, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office