



December 18, 2012

Ms. Rachel Hurst, Director of Community Development
City of Coronado
1825 Strand Way
Coronado, CA 92118

Dear Ms. Hurst:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 13, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Coronado Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 29, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 13, 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 20, 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 item being disputed.

- Items Nos. 20 and 21 totaling \$2.4 million are for payments to the Coronado Hospital Foundation related to fiscal years 2009-10 and 2010-11. Finance no longer objects to the items. Finance denied the items as requesting funds to reimburse obligations of the former redevelopment agency (RDA) for a period that occurred prior to the dissolution of redevelopment is not an enforceable obligation. HSC section 34177 (l) (3) indicates the ROPS should be forward looking to the next six months. The Agency contends the items are enforceable obligations because the Owner Participation Agreement (OPA) between the former RDA, Coronado Hospital Foundation, and Sharp Coronado Hospital and Healthcare Center was entered into on June 20, 2006, and this agreement commits funding in installments that roll forward from fiscal year to fiscal year. Meaning that past installments remain due and payable until the contract is completed. Section 2.1 of the OPA states that the Agency shall budget and appropriate \$2 million in each fiscal year until the cumulative total amount deposited in the Agency Grant Account equals \$16.5 million. The Agency is requesting the amounts due to the Hospital for fiscal years 2009-10 and 2010-11 since the Hospital is ready to proceed with projects. Therefore, the items are enforceable obligations.
- Item No. 40 in the amount of \$1.4 million is for a contract between the City of Coronado and the Agency. Finance continues to deny the item at this time. Finance denied the item as HSC 34171 (d) (2) states that agreements, contracts, or arrangements between

the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. The Agency contends the item is an enforceable obligation because the \$1.4 million of remaining rental income will repay a portion of the balance owed and the remaining loan will be written off. However, the loan was not entered into within the first two years of the date of creation or solely for the purpose of securing or repaying indebtedness obligations. Finance has not issued a Finding of Completion to the Agency; therefore, the provisions of HSC section 34171 apply. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable obligations. Therefore, this item is currently not an enforceable obligation.

- Item No. 39 totaling \$4.92 million is identified as an obligation of the successor housing entity. Finance continues to deny the item. Finance denied the item as HSC section 34176 (a) (2) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City assumed the housing functions, the operating and administrative costs associated with these functions are the responsibility of the housing successor. The Agency contends the item is an enforceable obligation because these are project expenses associated with implementation of the OPA between the former RDA, the Coronado Hospital Foundation, and Sharp Coronado Hospital and Healthcare Center. However, based on information provided by the Agency, the staff time is to be spent on tasks associated with affordable housing. Obligations associated with the former RDA's previous 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, the item is not an enforceable obligation.
- Items Nos. 27, 37, 38, and 42 totaling \$35,100 are considered administrative expenses and should be counted toward the cap. Finance continues to reclassify Item 27 and 42 as administrative expenses and no longer reclassifies Items 37 and 38 as administrative costs, but denies them as enforceable obligations. The Agency contends the items are enforceable obligations because these expenses are costs associated with work on specific project implementation activities that are specifically excluded from administrative costs per Section 34171(b). However, Items 27 and 42 do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.

For Items 37 and 38, the Agency did have contracts in place for the services prior to June 27, 2011; however, the contracts expired October 16, 2012. Therefore, per HSC

section 34176 (a) (1), if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets, excluding any amounts on deposit in the Low and Moderate Income Housing Fund and enforceable obligations retained by the successor agency, shall be transferred to the city, county, or city and county. So, any costs associated with assets transferred to the housing successor agency are now the obligation of the housing successor agency, not the successor agency. Therefore, Items 37 and 38 are not enforceable obligations and should not be reclassified as administrative costs.

In addition, per Finance's ROPS letter dated October 13, 2012, the following items not disputed by the Agency continue to be denied:

- Items Nos. 11 through 19 totaling \$60.9 million are for loans between the City and the redevelopment agency. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Therefore, these items are not enforceable obligations at this time. Upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.
- Items Nos. 32 and 33 totaling \$6.45 million are identified as obligations of the successor housing entity. HSC section 34176 (a) (2) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City assumed the housing functions, the operating and administrative costs associated with these functions are the responsibility of the housing successor. Therefore, these items are not enforceable obligations and not eligible for funding.
- Item No. 41 in the amount of \$180,000 to rehabilitate affordable housing units is not enforceable. HSC section 34163(b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. It is our understanding that contracts related to this item have not been awarded. Upon receiving a Finding of Completion from Finance, these items may become enforceable pursuant to HSC section 34191.4 (c). Until then, they are not enforceable obligations and not authorized for payment.
- Item No. 45 in the amount of \$2.4 million related to the July 2012 True-Up demand payment. The July 2012 True-Up process was to collect residual pass-through payments owed to the affected taxing entities for the January through June 2012 period, not to cause shortfalls in funding for the July through December 2011 period expenses. Additionally, this Item No. does not meet the definition of an enforceable obligation as identified in HSC section 34171 (d). Therefore, this item is not an enforceable obligation and not eligible for funding.
- Claimed administrative costs exceed the allowance by \$330,585. HSC section 34171 (b) limits the fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is

eligible for \$316,515 for administrative expenses. It is our understanding that no administrative costs were distributed for the July through December 2012 period, thus leaving \$316,515 available for the January through June 2013 period. Although only \$291,000 is claimed for administrative costs, Item No. 27, 31, 37, 38, and 42 totaling \$356,100 are considered administrative expenses and should be counted toward the cap. Therefore, \$330,585 of excess administrative cost is not allowed.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$6,111,407 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 6,147,003
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 27*	10,000
Item 31*	321,000
Item 37	10,100
Item 38	5,000
Item 39	67,040
Item 42*	10,000
Total approved RPTTF for enforceable obligations	\$ 5,723,863
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	387,544
Total RPTTF approved:	\$ 6,111,407
* Reclassified as Administrative Costs	
Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 7,194,258
Total RPTTF for the period January through June 2013	5,723,863
Total RPTTF for fiscal year 2012-13:	\$ 12,918,121
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	387,544
Administrative allowance for the period of July through December 2012	0
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 387,544

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Rhonda Huth, Senior Management Analyst, City of Coronado
Mr. Juan Perez, Senior Auditor and Controller Manager, San Diego County
California State Controller's Office