

April 5, 2012

Mr. Vinod Sharma
Director of Finance
County of Santa Clara
70 West Hedding Street
San Jose, CA 95110

Dear Mr. Sharma:

As requested by the Auditor-Controller of the County of Santa Clara, we have prepared a letter summarizing the preliminary results of our interim procedures performed to date related to the draft initial Recognized Obligation Payment Schedule (ROPS) of the City of Sunnyvale as successor agency (City) to the City of Sunnyvale Redevelopment Agency. Our engagement started with an entrance conference on March 21, 2012 followed by 3 days of fieldwork and concluded with an exit conference with the City on April 4, 2012, where we discussed our preliminary findings related to the procedures performed. To the extent a legal determination was necessary for and reflected in the ROPS as certified by the Auditor-Controller, we defer to the opinion of the Office of the County Counsel for the County of Santa Clara.

The results include:

- Schedule 1: A summary of the Auditor-Controller's certified ROPS for the period January 1, 2012 through June 30, 2012;
- Schedule 2: A Reconciliation of the City's Draft ROPS and Auditor Controller's certified ROPS;
- Schedule 3: A certified ROPS payment detail for the relevant six-month period;
- Schedule 4: Observations noted including a description of the differences between the City's Draft ROPS and the Auditor-Controller's certified ROPS; and

Summary of Preliminary Findings Related to the City of Sunnyvale Draft Recognized Obligation Payment Schedule

The City submitted a total of thirteen (13) items on its Draft ROPS schedule amounting to total obligation payments of \$7,750,337 for the period from January 1, 2012 to June 30, 2012.

Two (2) items totaling \$238,423 were classified and one (1) item of \$7,163 was reclassified as administrative costs and excluded from the ROPS schedule due to the requirements of Health & Safety (H&S) Section 34171, which limits the amount of administrative expenses that are reimbursable from the Redevelopment Property Tax Trust Fund, and can only be authorized by the oversight board.

Ten (10) items totaling \$7,511,914 are contractual obligations that are the primary focus of this correspondence. Based on our interim procedures, with the assistance of the County Finance Agency and the County Counsel, the Auditor-Controller certification resulted in three (3) obligations that must be paid by the City during the first six-month period January 1 – June 30, 2012. These obligations amounted to \$574,887.

The City provided us with documentation to support each item listed on its ROPS. That is, it provided the source contracts for the thirteen (13) contractual and administrative obligations on the ROPS. However, some contracts that were provided by the City to substantiate the ROPS did not contain the specific dollar amounts due during the initial six-month period of January 1 – June 30, 2012, and the City did not provide additional documentation to support the amounts due that were reported on its ROPS schedule. In these instances, we accepted the amounts due as they were submitted to the County's Director of Finance, since the amounts projected by City staff were within the contract limits. However, in some instances, the Contractual Obligation submitted by the City is determined to be non-enforceable by the Office of County Counsel.

This letter summarizes our preliminary observations related to the performance of agreed-upon procedures, which will be the basis for issuing our final report thereon. Such observations are subject to change as a result of our internal quality control process for the review of work and the report. Such observations are also subject to change based on additional information, which may be provided by the City. Our agreed upon procedures report will report our final findings. This letter is intended solely for the information and use of the County's Director of Finance, and is not intended to be and should not be used by anyone other than this specified party.

Macias Gini & Cunnell LLP

Walnut Creek, California

City of Sunnyvale Redevelopment Agency

SUMMARY

Certified Recognized Payment Obligations Schedule (ROPS)

County of Santa Clara Auditor-Controller

(Per AB 26 - Section 34177)

Item No.	Project Name or Debt Obligation	Payee	Six-Month Certified Obligations Payable (1/1/12 - 6/30/12)
Section 1 - Debt Obligations			
1	2003 Tax Allocation Refunding Bonds	US Bank	109,308
1	Subtotal Section 1		\$ 109,308
Section 2 - Contracts			
1	2010 Amended Disposition and Development and Owner Participation Agreement Article 4	State Water Resources Controls Board (Article 4 only)	460,824
2	Bond Covenants Other Than Principal and Interest Debt Service Payments	Professional services	4,755
2	Subtotal Section 2		\$ 465,579
3	Grand Total ROPS		\$ 574,887
5 Percent Administrative Cost Limit			
			\$ 28,744
Section 3 - Administrative Costs			
1	Administration and operation of RDA	Agency staff and professional services	82,264
2	RDA Special Projects	Professional services	35,573
3	Bond Covenants Other Than Principal and Interest Debt Service Payments	Professional services	7,163
3	Subtotal Section 3		\$ 125,000
Less Administrative Costs in Excess of 5 Percent Limit			
Maximum Allowable Administrative Costs			\$ 125,000
Section 4 - Pass-Through Obligations			
			Pass-through obligations to be paid directly by County from the RPTF
0	Total Section 4		\$ -

Notes:
 *1 As submitted by the City. These amounts will be subsequently adjusted by the Auditor-Controller and certified to equal the total obligation as of January 31, 2012.
 *2 Cancellable obligations are those that the Oversight Board has discretion to approve or disapprove.

City of Sunnyvale Redevelopment Agency

RECONCILIATION OF DRAFT AND CERTIFIED RECOGNIZED OBLIGATION PAYMENT SCHEDULES

County of Santa Clara Auditor-Controller

(Per AB 26 - Section 34177)

City of Sunnyvale Draft Recognized Obligation Payment Schedule						
Item No.	ROPS Item No.	Project Name or Debt Obligation	Payee	Total Outstanding Debt or Obligation*1	Source of Payment	Total Obligation Payable 1/1/12 - 6/30/12
Section 1 - Debt Obligations						
1	1	2003 Tax Allocation Refunding Bonds	US Bank	7,235,082	RPTTF	109,308
2	2	1998 Certificates of Participation (Parking Facility Refunding)	US Bank	14,625,954	RPTTF	256,959
3	3	Repayment Obligations-1977 Loan Repayment Agreement	City of Sunnyvale	41,607,073	RPTTF, Other	3,884,706
4	4	Repayment Obligations-2003 Loan Repayment Agreement	City of Sunnyvale	69,653,605	RPTTF	-
5	5	Repayment Obligations-2003 Loan Repayment Agreement	City of Sunnyvale	6,437,807	RPTTF	-
5	5	Subtotal Section 1		\$ 139,559,521		\$ 4,250,973
Section 2 - Contracts						
1	6	2010 Amended Disposition and Development and Owner Participation Agreement Article 8	Town Center Developer (Article 8 only)	52,894,951	RPTTF, Other	2,742,557
2	7	2010 Amended Disposition and Development and Owner Participation Agreement Article 4	State Water Resources Controls Board (Article 4 only)	1,868,146	RPTTF	506,466
3	8	Agency staff and professional services for DDA (Entire Agreement)	City of Sunnyvale	760,000	RPTTF	-
4	9	Housing Fund Deficit Bond Covenants Other than Principal and Interest Debt	City Low and Moderate Income Housing Fund (L&M)	15,711,287	RPTTF	-
5	12	Service Payments	Professional services	216,000	RPTTF	11,918
5	5	Subtotal Section 2		\$ 71,450,384		\$ 3,260,941
10	10	Grand Total ROPS		\$ 211,009,905		\$ 7,511,914
5 Percent Administrative Cost Limit						
Section 3 - Administrative Costs						
1	10	Administration and operation of RDA	Agency staff and professional services	4,417,627	RPTTF	202,850
2	11	RDA Special Projects	Professional services	175,000	RPTTF	35,573
3	12	Bond Covenants Other than Principal and Interest Debt Service Payments	Professional services	-	RPTTF	-
3	3	Subtotal Section 3		\$ 4,592,627		\$ 238,423
Less Administrative Costs in Excess of 5 Percent Limit Maximum Allowable Administrative Costs						
Section 4 - Pass-Through Obligations						
0		Total Section 4		\$ -		\$ -

Auditor Controller Exclusions		
Reclassifications *2	Non-Enforceable Obligations*4	Reported Obligations w/o Financial Documentation
	256,959	
	3,884,706	
	-	-
	-	-
\$ -	\$ 4,141,665	\$ -
	2,742,557	
	45,642	
	-	-
	-	-
(7,163)		
\$ -	\$ 2,788,199	\$ -
\$ -	\$ 6,929,864	\$ -
		-
		-
7,163		
\$ 7,163	\$ -	\$ -
\$ -	\$ -	\$ -

Auditor-Controller Certification		
Renegotiable/Cancellable Obligations*3	FY 2011-12 Six-Month Recognized Obligations Jan 1 - Jun 30	Documentation Reference
-	109,308	
-	-	
-	-	
-	-	
-	-	
\$ -	\$ 109,308	
	-	
	460,824	
	-	
	-	
	4,755	
\$ -	\$ 465,579	
\$ -	\$ 574,887	
	\$ 28,744	
Proposed Administrative Costs- Subject to separate Oversight Board Approval		
202,850	82,264	
175,000	35,573	
163,695	7,163	
\$ 541,545	\$ 125,000	
	125,000	
	\$ 125,000	
Pass-through obligations to be paid directly by County from the RPTTF		
\$ -	\$ -	

Notes:
 *1 As submitted by the City. These amounts will be subsequently adjusted by the Auditor-Controller and certified to equal the total obligation as of January 31, 2012.
 *2 Classification errors include payment obligations such as legally required pass-through payments that will be made by the County Auditor-Controller pursuant to law.
 *3 Cancellable obligations are those that the Oversight Board has discretion to approve or disapprove.
 *4 Non-enforceable obligations are those that are specifically prohibited by law.

SCHEDULE 3

City of Sunnyvale Redevelopment Agency
RECOGNIZED OBLIGATION PAYMENT SCHEDULE
SIX-MONTH PAYMENT DETAIL

County of Santa Clara Auditor-Controller
 (Per AB 26 - Section 34177)

City of Sunnyvale Draft Recognized Obligations			
Item No.	Project Name or Debt Obligation	Payee	Description
Section 1 - Debt Obligations			
1	2003 Tax Allocation Refunding Bonds	US Bank	1977 Bonds issued to fund redevelopment projects in the Central Core Project area, refunded in 1992 and again in 2003.
1	Subtotal Section 1		
Section 2 - Contracts			
1	2010 Amended Disposition and Development and Owner Participation Agreement Article 8	Town Center Developer (Article 8 only)	Annual payment in consideration for the developer constructing and operating the required public improvements.
2	2010 Amended Disposition and Development and Owner Participation Agreement Article 4	State Water Resources Controls Board (Article 4 only)	Investigation and remediation of hazardous materials.
3	Housing Fund Deficit	City Low and Moderate Income Housing Fund (L&M)	The Agency needed all its tax increment to service pre-1986 bonded debt and pre-1986 debt owed to the City. The deposit of 20% of tax increment into the L/M Income Housing Fund was deferred until all pre-1986 debt obligations are repaid.
4	Bond Covenants Other Than Principal and Interest Debt Service Payments	Professional services	Fees for trustee services, audit, rebate analysis, disclosure consulting.
4	Subtotal Section 2		
5	Grand Total ROPS		
Section 3 - Administrative Costs			
1	Administration and operation of RDA	Agency staff and professional services	Administrative and legal services; General Fund in-lieu payments for treasury and accounting support.
2	RDA Special Projects	Professional services	Technical support and outside legal counsel services with dissolution and winding down of assets of RDA.
3	Bond Covenants Other Than Principal and Interest Debt Service Payments	Professional services	Fees for trustee services, audit, rebate analysis, disclosure consulting.
3	Subtotal Section 3		
Section 4 - Pass-Through Obligations			
0	Total Section 4		

Total Outstanding Debt or Obligation*1	2012 Total Obligation Payable Jan 1-Jun 30	Auditor-Controller Certification						Documentation Reference
		ROPS Monthly Payment Schedule January 1, 2012 to June 30, 2012						
		Jan	Feb	Mar	Apr	May	Jun	
6,734,614	109,308	109,308						
\$ 6,734,614	\$ 109,308	\$ 109,308	\$ -	\$ -	\$ -	\$ -	\$ -	
52,894,951	-	-						
1,868,146	460,824	6,466	-	454,358	-	-	-	
15,711,287								
52,305	4,755	2,175	-	-	-	-	2,580	
\$ 70,526,689	\$ 465,579	\$ 8,641	\$ -	\$ 454,358	\$ -	\$ -	\$ 2,580	
\$ 77,261,303	\$ 574,887	\$ 117,949	\$ -	\$ 454,358	\$ -	\$ -	\$ 2,580	
202,850	82,264				6,902	37,681	37,681	
175,000	35,573	2,223	3,670	18,670	3,670	3,670	3,670	
163,695	7,163						7,163	
\$ 541,545	\$ 125,000	\$ 2,223	\$ 3,670	\$ 18,670	\$ 10,572	\$ 41,351	\$ 48,514	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Notes:

*1 The total outstanding obligation was not verified as part of this certification process.

SCHEDULE 4

**City of Sunnyvale Redevelopment Agency
Observations**

Schedule 2	Explanation
Section 1	
1	No change.
2	Based on documentation provided, this is an obligation of the City and not the Redevelopment Agency. Therefore it is not an enforceable obligation and should be removed from the ROPS.
3	Payments may only be made pursuant to a valid enforceable obligation payment schedule per Health & Safety Code 34177. This payment was not made pursuant to such a schedule and is therefore invalid. This loan agreement between the City of Sunnyvale and its RDA is invalid as of February 1, 2012 pursuant to Health and Safety Code sections 34171(d)(2) and 34178.
4	No payments are scheduled for this period. Therefore, this item should be removed from ROPS.
5	No payments are scheduled for this period. Therefore, this item should be removed from ROPS.
Section 2	
1	Successor Agency personnel has represented that payments are not required to be made in this 6 month period. Therefore, this item should be removed from ROPS.
2	Reduced payments by \$45,642 to reflect actual payments made by the Agency and the Agency's share of actual payments made by Developer.
3	No payments are scheduled for this period. Therefore, this item should be removed from ROPS.
4	No payments are scheduled for this period. Therefore, this item should be removed from ROPS.
5	Reclassified \$7,163 identified as the portion of payments relating to administrative costs.
Section 3	
All	Removed the administrative allowance and included administrative costs subject to the \$125,000 maximum allowance. Subject to separate Oversight Board approval and subject to statutory cap. Not currently an enforceable obligation.