Monday, September 24, 2012

Hon. John Chiang, State Controller  
P.O. Box 942850  
Sacramento, CA 94250

Ms. Ana Matosantos, Director  
Department of Finance  
915 L Street  
Sacramento, CA 95814

Oversight Board for the Sunnyvale Successor Agency  
456 W. Olive Ave  
P.O. Box 3707  
Sunnyvale, CA 94086

City of Sunnyvale Successor Agency  
456 W. Olive Ave  
P.O. Box 3707  
Sunnyvale, CA 94086


Dear State Controller, Department of Finance, Oversight Board, and Successor Agency:

We present this Agreed Upon Procedures Report for the Sunnyvale Redevelopment Agency ("Agency") in accordance with Health and Safety Code section 34182. This report is presented in several sections, with attachments including tables for the establishment of assets and liabilities. The majority of the agreed upon procedures were completed by Macias Gini & O'Connell, retained under contract by the Santa Clara County Finance Agency.

By law, the purpose of this report is to establish the assets, liabilities, and other indebtedness of the former redevelopment agency, as well as to document and determine any passsthrough payment obligations to taxing entities.

Below, we highlight the major findings.
Major Findings

Assets

Attachment A shows all assets that were available upon termination of the Authority on January 31, 2012. This has been divided into two components: (1) Assets Transferable to the Housing Successor Agency and (2) Assets Available for the Successor Agency under the purview of the Oversight Board.

There was one major adjustment to assets listed by the Successor Agency, which was to disallow the 2012 fiscal year housing set aside deferral, in accordance with AB 1484. The Department of Finance similarly disallowed this amount in reviewing the Agency’s housing asset transfer form. The City has subsequently agreed to this adjustment. Total assets for the Successor Agency were $16,700,386. A full listing of the Agency’s real property is on the middle of Attachment E.

Liabilities

Attachment B shows all established liabilities and other obligations at January 31, 2012, totaling $90,674,085. All adjustments to obligations listed by the Successor Agency are explained in the narrative following Attachment B.

Also listed on Attachment B are three loan obligations that were invalidated as of February 1, 2012, under Health and Safety Code sections 34171(d)(2) and 34178(a) as agreements between the City and former redevelopment agency.1

Pursuant to AB 1484, when the Successor Agency receives a “finding of completion” from the Department of Finance, these loan obligations are eligible for restoration under certain conditions and upon Oversight Board approval. One of the conditions is that the obligations must be recalculated from origination at the rate earned by the Local Agency Investment Fund (LAIF).2 Accordingly, Attachment B shows the recalculated amounts, should all relevant conditions be met and the obligations are restored as enforceable.

Passthrough Obligations

The Agency has no statutory or negotiated passthrough obligations to any taxing entity.

---

1 The treatment of the 1977 Loan has been explained in further detail in the Auditor-Controller’s supplemental ROPS Objection Letter of September 17, 2012, which is hereby incorporated by reference into this report. It is available at: http://www.sccgov.org/sites/fin/Controller-Treasurer%20Department/ABx126implementation/Documents/Objection%20to%20the%20City%20of%20Sunnyvale%20loan%20to%20RDA%20(ROPS%20II%20Item%204).pdf.

2 Health and Safety Code section 34191.4(b).
Asset Transfers

Asset transfers between January 1, 2011, and January 31, 2012, are listed on Attachment G. The two transfers appear to be permissible repayments of a City loan prior to February 1, 2012, and so we are pleased to report that there are no assets that we believe are subject to claw-back actions by the State Controller’s Office as required under Health and Safety Code section 34167.5.

Respectfully submitted,

[Signature]

Vinod K. Sharma, C.P.A.
Director of Finance
County of Santa Clara
COUNTY OF SANTA CLARA, CALIFORNIA

Independent Accountant’s Report on Applying Agreed-Upon Procedures on the Former Redevelopment Agency of the City of Sunnyvale, California

Pursuant to AB x1 26 and AB 1484 Community Redevelopment Dissolution
COUNTY OF SANTA CLARA, CALIFORNIA

Independent Accountant’s Report on
Applying Agreed-Upon Procedures on the
Former Redevelopment Agency of the
City of Sunnyvale, California

Table of Contents

<table>
<thead>
<tr>
<th>Attachment</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Attachment A: Establishment of Assets at 1/31/12</td>
<td>1</td>
</tr>
<tr>
<td>2. Attachment B: Establishment of Liabilities at 1/31/12</td>
<td>2</td>
</tr>
<tr>
<td>3. Independent Accountant’s Report on Applying Agreed-Upon Procedures</td>
<td>4</td>
</tr>
<tr>
<td>4. Attachment C: Agreed-Upon Procedures and Findings</td>
<td>5</td>
</tr>
<tr>
<td>5. Attachment D: Detailed Schedule of Procedures and Findings</td>
<td>15</td>
</tr>
<tr>
<td>6. Attachment E: Additions and Deletions of Assets, Changes to Capital Assets, Additions and Deletions of Liabilities</td>
<td>17</td>
</tr>
<tr>
<td>8. Attachment G: Asset Transfer Schedule</td>
<td>19</td>
</tr>
</tbody>
</table>
# City of Sunnyvale Redevelopment Agency

## Establishment of Assets at 1/31/12

County of Santa Clara Auditor Controller  
(Per ABX1 - 26 Section 34182)

### Assets Transferrable to Housing Successor Agency

<table>
<thead>
<tr>
<th>NO.</th>
<th>Description</th>
<th>Unaudited Balance per RDA Books 1/31/2012</th>
<th>Adjustments</th>
<th>Established Per Auditor/Controller 1/31/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>Ref</td>
<td>Increases</td>
</tr>
<tr>
<td>1</td>
<td>Due from Other Funds</td>
<td>$15,711,287</td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

**Sub-Total**: $15,711,287

### Assets Available for Successor Agency

<table>
<thead>
<tr>
<th>NO.</th>
<th>Description</th>
<th>Unaudited Balance per RDA Books 1/31/2012</th>
<th>Adjustments</th>
<th>Established Per Auditor/Controller 1/31/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Cash and Investments-Encumbered</td>
<td>$</td>
<td></td>
<td>$638,255</td>
</tr>
<tr>
<td>3</td>
<td>Cash and Investments-Bondholders' Unclaimed Property</td>
<td>63,388</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Cash and Investments-Restricted for Debt Service Reserve</td>
<td>1,929,683</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Cash and Investments-Restricted for 2/1/12 Debt Service</td>
<td>109,308</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Land</td>
<td>13,959,752</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

**Sub-Total**: $16,062,131

### Total Assets

<table>
<thead>
<tr>
<th>NO.</th>
<th>Description</th>
<th>Unaudited Balance per RDA Books 1/31/2012</th>
<th>Adjustments</th>
<th>Established Per Auditor/Controller 1/31/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount</td>
<td>Ref</td>
<td>Increases</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$31,773,418</td>
<td>$638,255</td>
<td>$(1,037,951)</td>
</tr>
</tbody>
</table>

---

1. Deferred payments owed to the Low and Moderate Income Housing Fund are considered Housing Assets. However, the repayment schedule must be approved by the Oversight Board and the repayments cannot begin before FY 2013-2014. Furthermore, the balance has been reduced by $1,037,951 pursuant to the amended Section 34163(c)(4) of the Health and Safety Code, which prohibits any deposits to the Low and Moderate Income Housing Fund subsequent to June 27, 2011.

2. The City returned $638,255 of loan repayment as of 1/31/12. Per City Staff, this reversal was done so that the Successor Agency would have sufficient cash at 1/31/12 to pay the enforceable obligations through June 30,2012. This was caused by the change in timing in the use of property tax allocations as a result of the dissolution.
## City of Sunnyvale Redevelopment Agency

### Establishment of Liabilities at 1/31/12

County of Santa Clara Auditor Controller  
(Per AB X1 - 26 Section 34182)

<table>
<thead>
<tr>
<th>Debt Obligation listed on ROPS</th>
<th>Total Debt Obligations per Certified ROPS 1/31/2012</th>
<th>Adjustments</th>
<th>Established Per Auditor/Controller 1/31/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item No.</td>
<td>Project Name or Debt Obligation</td>
<td>Amount</td>
<td>Ref</td>
</tr>
<tr>
<td>1</td>
<td>2003 Tax Allocation Refunding Bonds (Final Maturity 8/1/22)</td>
<td>$7,235,082</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>1998 COP-Parking Facility Refunding (Final Maturity 10/1/22)</td>
<td>14,625,954</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>Repayment Obligations-1977 Loan Repayment Agreement</td>
<td>41,607,073</td>
<td>(41,607,073)</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>$63,468,109</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

### Section 2 Contractual Obligations

| Item No. | Project Name or Debt Obligation | Amount | Ref | Amount | Ref | Amount | Ref |
| 1 | 2010 Amended Disposition and Development and Owner Participation Agreement Article 8 | - | - | 52,894,951 | - | 52,894,951 |
| 2 | 2010 Amended Disposition and Development and Owner Participation Agreement Article 4 | 1,868,146 | 34,955 | (37,661) | - | 1,865,440 |
| 3 | Agency Staff and Professional Services for DDA (Entire Agreement) | - | 539,816 | - | - | 539,816 |
| 4 | Bond Covenant other than Principal and Interest Debt Service payments. | - | 15,711,287 | (1,037,951) | - | 14,673,336 |
| 5 | **Total** | **$1,920,451** | **$69,181,009** | **$1,075,612** | - | **$70,025,848** |

### Section 3 Administrative obligations

| Item No. | Project Name or Debt Obligation | Amount | Ref | Amount | Ref | Amount | Ref |
| 1 | Administrative Cost Allowance | **$235,828** | - | - | - | **$235,828** |

| **Total Per Submitted ROPS** | $65,624,388 | $69,181,009 | $(44,131,312) | $90,674,085 |

### Section 4 City Obligations That May Be Deemed Enforceable Upon Finding of Completion and Oversight Board Approval (Adjusted to LAIF from Origination)

| Item No. | Project Name or Debt Obligation | Amount | Ref | Amount | Ref | Amount | Ref |
| 1 | Repayment Obligations-1977 Loan Repayment Agreement | - | 41,607,073 | (41,004,896) | - | 602,177 |
| 2 | Repayment Obligations-2003 Loan Repayment Agreement | - | 69,653,605 | (50,967,882) | - | 18,685,723 |
| 3 | Repayment Obligations-2003 Loan Repayment Agreement | - | 6,437,807 | (4,496,360) | - | 1,941,447 |

| **Total Obligations subject to further action** | - | 117,698,485 | (96,469,138) | - | 21,229,347 |
# City of Sunnyvale Redevelopment Agency

## Explanation of Liabilities at 1/31/12

### Section 1

1. Based on our review of the supporting documents, 1977 Bonds issued to fund redevelopment projects in the Central Core Project area was refunded in 1992 and again in 2003. Net remaining obligation at 1/31/12 is $6,734,614, represents $5,285,000 of outstanding principal and $1,449,614 of interest. The negative adjustment of $500,468 represents 8/1/11 debt service.

2. Based on our review of the supporting documents, 1978 Bonds issued to fund redevelopment projects in the Central Core Project area was refunded in 1992 and 1998. The 1998 COPS were issued by the City of Sunnyvale and are no longer enforceable under HSC Section 34171(d)(2). However, HSC 34178(a) states that the Successor Agency wishing to reenter into an agreement with the City may do so upon approval of the Oversight Board which the Oversight Board subsequently reentered into on April 24, 2012. Net remaining obligation at 1/31/12 is $13,677,795, which represents $10,300,000 of outstanding principal and $3,377,795 of interest. The negative adjustment of $948,159 represents 8/1/11 debt service.

3. Based on our review of the supporting documents, this loan is authorized by a contract dated May 1, 1977 with the City of Sunnyvale and is no longer valid and shall not be binding on the Successor Agency pursuant to HSC Section 34171(d)(2), effective upon dissolution at 2/1/12. However, upon issuance of finding of completion by the State Department of Finance and approval from the Oversight Board, this loan may be restored using LAIF rates from origination of the loan.

### Section 2

1. This obligation was not included in the previously Certified ROPS, as there was no scheduled payment during the period of January 1, 2012 through June 30, 2012 and, therefore, the outstanding balance is reported as an increase. Based on our review of the supporting documents, the amount represents an estimated projection of payments due through the year 2026. The obligation represents growth in assessed value (AV) for the Town Center project area dating back to FY2004. The accumulated obligation at 6-30-11 was $4.5M. The FY2012 property tax related to the FY2012 AV growth is $2.0M. There have been no funds set aside to repay the developer. Annual payments over the base year of FY2004 will be due to the developer once the project reaches the defined "Minimum Project TIF Date"; which requires the completion of certain retail space, including executed leases, and the completion of the Redwood Plaza Area.

2. Based on our review of the supporting documents, this item represents remediation costs for environmental clean up at the Town Center Project for soil and groundwater contamination. The estimated remaining obligation at 6-30-11 (per audited financial statements) was $1,903,101, which represents the former RDA's share (50%) of environmental clean up costs. The obligation was increased by $34,955, to adjust the balances reported in the audited financial statements at 6-30-11, and decreased by $37,661, to report payments made during the seven months ended January 31, 2012.

3. This obligation was not included in the previously Certified ROPS, as there was no scheduled payment during the period of January 1, 2012 through June 30, 2012 and, therefore, the outstanding balance is reported as an increase. Based on our review of the supporting documents, this item represents employee costs to monitor and administer the rights and obligations under the ADDOPA (same developer agreement as items 1 and 2 above).

4. This obligation was not included in the previously Certified ROPS, as there was no scheduled payment during the period of January 1, 2012 through June 30, 2012 and, therefore, the outstanding balance is reported as an increase. Based on our review of the supporting documents, the amount represents the accumulated balance of unpaid 20% set-aside deposits to the low and moderate income housing fund and is considered to be Housing Assets. However, a repayment schedule must be approved by the Oversight Board and the repayment cannot begin prior to FY 2013-2014. Furthermore, the balance has been reduced by $1,037,951 pursuant to the amended Section 34163(c)(4) of the Health and Safety Code, which prohibits any deposits to the Low and Moderate Income Housing Fund subsequent to June 27, 2011.

5. Based on our review of the supporting documents, this item represents trustee fees related to the indebtedness listed in items 1 and 2 of Section 1 above. Certain costs, such as audit fees, are administrative in nature and have been "reclassified" to administrative costs.

### Section 3

All These administrative expense items are subject to approval by the Oversight Board of a proposed budget submitted by the Successor Agency, and are subject to a total statutory cap. The Administrative Cost Allowance was limited to $235,828 for the period from February 1, 2012 through June 30, 2012.

### Section 4

1. As discussed above at Section 1, item 3, upon issuance of finding of completion by the State Department of Finance and approval from the Oversight Board, the 1977 loan may be restored using LAIF rates from the origination of the loan. Using the new rates, the recomputed balance of this loan at 1/31/12 was $602,177.

2. Based on our review of the supporting documents, this loan is authorized by a contract dated December 18, 2003 with the City of Sunnyvale and is no longer valid and shall not be binding on the Successor Agency pursuant to HSC Section 34171(d)(2), effective upon dissolution at 2/1/12. However, upon issuance of finding of completion by the State Department of Finance and approval from the Oversight Board, the 2003 loan may be restored using LAIF rates from the origination of the loan. Using the new rates, the recomputed balance of this loan at 1/31/12 was $18,685,723, which includes $14,017,916 in principal and $4,667,807 in accrued interest.

3. Based on our review of the supporting documents, this loan is authorized by a contract dated December 18, 2003 with the City of Sunnyvale and is no longer valid and shall not be binding on the Successor Agency pursuant to HSC Section 34171(d)(2), effective upon dissolution at 2/1/12. However, upon issuance of finding of completion by the State Department of Finance and approval from the Oversight Board, the 2003 loan may be restored using LAIF rates from the origination of the loan. Using the new rates, the recomputed balance of this loan at 1/31/12 was $1,941,447, which includes $1,500,000 in principal and $441,447 in accrued interest.
Independent Accountant’s Report on Applying Agreed-Upon Procedures

We have performed the agreed-upon procedures enumerated in Attachment C, which were agreed to by the California State Controller’s Office, the California State Department of Finance, and the County of Santa Clara (County) Auditor-Controller, and the additional agreed-upon procedures requested and agreed to by the County, solely to assist you in ensuring that the dissolved Redevelopment Agency of the City of Sunnyvale (City) is complying with its statutory requirements with respect to Assembly Bill (AB) x1 26 and AB 1484. Management of the City is responsible for the accounting records pertaining to statutory compliance pursuant to the California Health and Safety Code section 34182(a)(1). This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the agreed-upon procedures as set forth in Attachment C. Attachment C also identifies the findings noted as a result of the procedures performed.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Enforceable Obligation Payment Schedule or the Recognized Obligation Payment Schedule or as to the appropriateness of the other financial information summarized in Attachments A, B, C, D, E, F and G. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the County Auditor-Controller, the California State Controller’s Office, and the California State Department of Finance, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Walnut Creek, California
September 20, 2012
A. RDA Dissolution and Restrictions  
(Additional Procedures as Requested and Agreed to by the County: #6)

For each redevelopment agency dissolved, perform the following:

1. Obtain a copy of the enforceable obligation payment schedule (EOPS) for the period of August 1, 2011, through December 31, 2011.

1.1. Trace the redevelopment project name or area (whichever applies) associated with the obligations, the payee, a description of the nature of the work/service agreed to, and the amount of payments made by month through December 31, 2011, and

1.2. Compare it to the legal document(s) that forms the basis for the obligations. Since amounts could be estimated, determine that they are stated as such and that legal documentation supports those estimates.

**Finding:** Based on procedures performed, we noted there were obligations in the Initial EOPS for the period of August 1, 2011 through December 31, 2011 where legal supporting documentation was not adequate to determine whether it was a former redevelopment agency obligation. In addition, there were projections of payments based on estimates that were not specifically identified as such in the Initial EOPS. Refer to Attachment D for a detailed summary of findings.

Based on procedures performed, we noted the following differences between the amounts listed in the Initial EOPS for the period of August 1, 2011, through December 31, 2011 and the related supporting documents:

(a) Page 1, item 4 - 2003 Loan Repayment Agreement ($124,048,650) and the amount per the supporting documents provided ($69,653,605). Per City Staff, the difference was due to the assumption that RDA would continue to exist during the preparation of the initial EOPS.


2.1 Trace the redevelopment project name or area (whichever applies) associated with the obligations, the payee, a description of the nature of the work/service agreed to, and the amount of payments to be made by month through June 30, 2012, and

2.2 Compare it to the legal document(s) that form the basis for the obligation. Since amounts could be estimated, determine that they are stated as such and that legal documentation supports those estimates.

**Finding:** Based on procedures performed, we noted there were obligations in the Amended EOPS for the period of January 1, 2012 through June 30, 2012 where legal supporting documentation was not adequate to determine whether it was a former redevelopment agency obligation. In addition, there were projections of payments based on estimates that were not specifically identified as such in the Amended EOPS. Refer to Attachment D for a detailed summary of findings.

3. Identify any obligations listed on the EOPS that were entered into after June 27, 2011, by inspecting the date of incurrence specified on Form A of the Statement of Indebtedness filed with the County Auditor-Controller, which was filed on or before October 1, 2011.

**Finding:** No exceptions were noted as a result of applying this procedure.
4. Inquire and specifically state in the report the manner in which the agency did or did not execute a transfer of the Low and Moderate Income Housing Fund to the redevelopment successor agency by February 1, 2012. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the successor agency. If the successor agency is a party other than the agency that created the redevelopment agency, an examination of bank statements and changing of account titles and fund names evidencing such transfer will be sufficient.

**Finding:** There are no available funds in the former redevelopment agency’s Low and Moderate Income Housing Fund for the Successor Agency to execute a transfer as the fund had an unadjusted deficit of $15,711,287 as of January 31, 2012.

5. Inquire and specifically state in the report how housing activities (assets and functions, rights, powers, duties, and obligations) were transferred and the manner in which this agency did or did not execute a transfer. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the other agency. An examination of bank statements and changing of account titles and fund names evidencing such transfers will be sufficient. If the housing successor is a party other than the agency that created the redevelopment agency, an examination of bank statements and re-recording of titles evidencing such transfer will be sufficient.

**Finding:** Per review of the City Council’s January 10, 2012 minutes, the City of Sunnyvale elected to retain the housing assets and functions of the former redevelopment agency. We noted the former redevelopment agency changed the name of the accounting fund.

6. For each obligation on the Enforceable Obligation Payment Schedule identified as qualifying under Section 34167 (d) perform the following:

6.1 For Bonds:
- Obtain the bond documents.
- Obtain the documentation of bond covenants
- Trace the bond to its issuing legislation.
- Trace the bond to its issuing party. Identify if it is issued by the RDA or other entity.
- Determine if the issuing legislation qualifies the bond for inclusion on the Enforceable Obligation Payment Schedule.
- Segregate bond obligations by component, i.e. required debt service, reserve set-asides, other payments, if applicable.

6.2 For Loans:
- Trace each loan to its lawful purpose, for example money borrowed from the Low and Moderate Income Housing Fund. Provide documentation of the purpose.
- Trace the loan to a required repayment schedule or other mandatory loan terms.
- Provide documentation of the schedule or terms.

6.3 For Payments required:
- Trace each required payment to the source of the requirement.
- Provide documentation of the source and of the terms.
6.4 For Judgments or Settlements:
- Trace each judgment or settlement to its source document. Provide documentation and substantiation of the source and the terms.

6.5 For “Any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy”:
- Trace each agreement or contract to its source document. Provide documentation of the source.
- Trace each agreement to documentation justifying that it is not void because of a debt limit violation or public policy. Provide documentation of the justification.

6.6 Contracts or agreements necessary for the continued administration or operation of the redevelopment agency to the extent permitted by this part, including, but not limited to, agreements to purchase or rent office space, equipment and supplies, and pay-related expenses pursuant to Section 33127 and for carrying insurance pursuant to Section 33134; perform the following:
- Identify the justification for the obligation. Provide the reason.
- Trace each agreement or contract to its source document. Provide documentation of the source.

6.7 For each obligation on the Enforceable Obligation Payment Schedule, ensure:
- The obligation was an obligation of the RDA as of June 27, 2011 per Health and Safety code Sections 34161 through 34165. Under these code sections, the RDA cannot incur new indebtedness or expand existing monetary or legal obligations, amend agreements, contracts, etc. as of June 28, 2011.

6.8 For each obligation on the Enforceable Obligation Payment Schedule:
- Trace it to the FY11 Statement of Indebtedness. Document the differences.
- Identify items on the EOPS that were updated/changed from the original schedule, substantiate the reason for the change, and ensure that these items are subjected to all applicable procedures identified above

Finding: See Attachment D for a summary of findings. All items requiring documentation to be submitted to the County have been provided to the County separately, and are not incorporated into the accompanying report.

B. Successor Agency

1. Inspect evidence that a successor agency:
   (a) Has been established by February 1, 2012; and
   (b) The successor agency oversight board has been appointed, with names of the successor agency oversight board members, which must be submitted to the Department of Finance by May 1, 2012.

Finding: No exceptions were noted as a result of the procedures performed.

2. Inquire regarding the procedures accomplished and specifically state in the report the manner in which this agency did or did not execute a transfer of operations to the successor agency, which was due by February 1, 2012. Procedures to accomplish this might include changing the name of the accounting fund and related bank accounts that are holding these assets for the successor agency. If the successor agency is a party other than the agency that created the redevelopment agency, an
examination of bank statements and changing of account titles and fund names evidencing such transfers will be sufficient.

**Finding:** Per review of the City Council’s January 10, 2012 minutes, the City of Sunnyvale elected to serve as Successor Agency to the former redevelopment agency. We noted the City has changed the name of the accounting fund and the former redevelopment agency assets and liabilities were transferred to the new Successor Agency accounting fund.

3. Ascertain that the successor agency has established the Redevelopment Obligation Retirement Fund(s) in its accounting system.

**Finding:** No exceptions were noted as a result of the procedure performed. We observed the City established the Redevelopment Obligation Retirement Fund in its accounting system with fund number 315, sub-fund 500.

4. Inspect the EOPS and ROPS and identify the payments that were due to be paid through the date of the Agreed-Upon Procedures (AUP) report. Select a sample (based on a dollar amount and/or percentage amount as determined by the Santa Clara County Auditor-Controller) and compare the payments that were due to be paid through the date of the AUP report to a copy of the cancelled check or other documentation supporting the payment.

**Finding:** We performed the testing of disbursements based on the dollar amount as determined by the County Auditor-Controller and no exceptions were noted. We selected all payments greater than $500, which totaled to $7,685,472.

5. Obtain listings that support the asset figures (cash, investments, accounts receivable, notes, receivables, capital assets, etc.) in the audited financial statements as of June 30, 2010, June 30, 2011, and as of January 31, 2012, as determined by the successor agency and include as an attachment to the AUP report.

**Finding:** See results summarized at Attachment E.

C. **Draft Recognized Obligation Payment Schedule (Draft ROPS) – (Additional Procedures as Requested and Agreed to by the County: #7)**

1. Obtain a copy of the initial draft of the ROPS from the successor agency and inspect evidence that the initial draft of the ROPS was prepared by March 1, 2012.

**Finding:** No exceptions were noted as a result of the procedure performed.

2. Note in the minutes of the Oversight Board that the draft ROPS has been approved by the Oversight Board. If the Oversight Board has not yet approved the draft ROPS as of the date of the AUP, this should be mentioned in the AUP report.

**Finding:** No exceptions were noted as a result of the procedure performed. The Oversight Board approved the draft ROPS on April 9, 2012.

3. Inspect evidence that a copy of the draft ROPS was submitted to the County Auditor-Controller, California State Controller’s Office, and California State Department of Finance.

**Finding:** No exceptions were noted as a result of the procedure performed.
4. Inspect evidence that the draft ROPS includes monthly scheduled payments for each enforceable obligation for the current six-month reporting time period.

**Finding:** No exceptions were noted as a result of the procedure performed.

5. Select a sample (based on dollar amount and/or percentage amount as determined by the Santa Clara County Auditor-Controller) and trace enforceable obligations listed on the draft ROPS to the legal document that forms the basis for the obligation.

**Finding:** We traced 100% of the enforceable obligations listed on the EOPS for the period August 1, 2011 to June 30, 2012 to the documentation that forms the basis of that obligation, otherwise, we reported any differences or lack of support as findings at Attachment D. For the draft ROPS that covers the period of January 1, 2012 to June 30, 2012, we noted there were no obligations on the draft ROPS that were not included in the EOPS.

6. Trace the obligations enumerated on the draft ROPS to the obligations enumerated on the EOPS (including amendments) and note any material differences as agreed to by the Santa Clara County Auditor-Controller.

**Finding:** Refer to Finding for Procedure C.5 above, which states that there are no differences between the draft ROPS and the EOPS for the period of January 1, 2012 to June 30, 2012.

7. Review the Draft Recognized Obligation Payment Schedule to ensure:
   - It includes projected dates.
   - It includes amounts of scheduled payments for each enforceable obligation.
   - The dates and payments are included for the remainder of the time period during which the redevelopment agency would have been authorized to obligate property tax increment had such a redevelopment agency not been dissolved.
   - Ensure that all obligations to be paid on the Initial Recognized Obligation Payment Schedule were subjected to the procedures applied above to Enforceable Obligations Payment Schedule.
   - For payments already made, trace the payment amount and date to the documentation of the payment and to the Initial ROPS.
   - Verify that payments made by the successor agency were made in accordance with the Enforceable Obligation Payment Schedule and Recognized Obligation Payment Schedule.
   - Pursuant to Health and Safety Code Section 34178, determine which written agreements are valid and bind the successor agency.

**Finding:** No exceptions were noted as a result of our procedures related to the first four bullets. For the fifth and sixth bullets, we subjected the payments listed on the draft ROPS and EOPS to testing at Procedure B.4. For the last bullet, there were no interagency loans under Section 34178 that were deemed to be valid and binding on the Successor Agency, however, as listed in Section 4 of Attachment B, certain interagency loans may be deemed enforceable upon a “Finding of Completion” by the California Department of Finance and approval by the Oversight Board.

D. Recognized Obligation Payment Schedule (Final ROPS) –
(Additional Procedures as Requested and Agreed to by the County: #3, #4, #6, #7 and #8)

1. Obtain a copy of the final ROPS (January 1, 2012, through June 30, 2012) from the successor agency.

**Finding:** No exceptions were noted as a result of the procedure performed.
2. Inspect evidence that the final ROPS was submitted to the County Auditor-Controller, the California State Controller’s Office, and California State Department of Finance by April 15, 2012, and is posted on the website of the City as successor agency (Health and Safety Code section 34177(2)(C)).

**Finding:** No exceptions were noted as a result of the procedure performed.

3. Inspect the final ROPS and identify the payments that were due to be paid through June 30, 2012.

**Finding:** There were no differences between the payments due to be paid, as listed on the draft ROPS and the final ROPS, therefore, the payments due to be paid on the final ROPS were satisfied during the performance of Procedure B.4.

4. For payments on the ROPS that were identified as being due through June 30, 2012, inspect evidence of payment and determine that amounts agree to the purpose of the obligation as amounts could be estimated.

**Finding:** There were no differences between the payments due to be paid, as listed on the draft ROPS and the final ROPS, therefore, the inspection of evidence of payments on the final ROPS were satisfied during the performance of Procedure B.4.

5. Select a sample (based on a dollar amount and/or percentage amount as determined by the Santa Clara County Auditor-Controller) and trace enforceable obligations listed on the final ROPS to the legal agreements or documents that forms the basis for the obligation.

**Finding:** We traced 100% of the enforceable obligations listed on the EOPS for the period August 1, 2011 to June 30, 2012, which covered all obligations listed in the final ROPS to the documentation that forms the basis of that obligation. Refer to Attachment D for the noted exceptions.

6. Obtain a copy of the final Statement of Indebtedness and note any difference between the Statement of Indebtedness and the final ROPS.

**Finding:** The Final ROPS is not comparable to the Statement of Indebtedness as it only includes 6-months of obligations. However, we compared obligations on the Statement of Indebtedness to enforceable obligations at Attachment D and noted any differences, including explanation of findings.

7. Determine the priority and source of payments to be made from the Redevelopment Property Tax Trust Fund pursuant to Health and Safety Code section 34183(a)(2).

**Finding:** For purposes of prioritization, the County requested that enforceable obligations be classified into “Debt Obligations” or “Contractual Obligations” and that the administrative cost allowance be separately categorized, see the results of the prioritization at Attachment B.

8. Identify enforceable obligations on the final ROPS that were not already tested in other procedures, and test.

**Finding:** We noted no other enforceable obligations on the final ROPS that were not already tested in other procedures.
City of Sunnyvale Redevelopment Agency  
Agreed-Upon Procedures and Findings

E. Other Procedures –  
(Additional Procedures as Requested and Agreed to by the County: #4 and #5)

1. Obtain a list of pass-through obligations and payment schedules.

   Finding: The County did not request us to complete this procedure. See results summarized at Attachment H prepared by the County.

2. Obtain a list of pass-through obligations and payments made from the successor agency from July 1, 2011 through January 31, 2012. Inspect evidence of payment, and note any differences from the list of pass-through obligations and payments made.

   Finding: The County did not request us to complete this procedure. See results summarized at Attachment H prepared by the County.


   Finding: Upon passage of AB 1484, the report due date was amended to October 5, 2012. As such, we issued this report on September 20, 2012, and the Santa Clara County Auditor-Controller plans to distribute it to the California State Controller by October 5, 2012.

4. Determine and verify that all of the former redevelopment agency assets and liabilities, properties, contracts, leases, books and records, buildings, and equipment that were properly closed out by the former redevelopment agency and transferred to the successor agency.

   Finding: We noted the City has established a new accounting fund for the Successor Agency in its accounting system and the former redevelopment agency assets and liabilities were transferred to the new Successor Agency accounting fund. We also noted that the assets and liabilities, properties, contracts, leases, buildings, and equipment at January 31, 2012, where applicable, were transferred to the Successor Agency on February 1, 2012. See the summaries of the January 31, 2012 balances at Attachment E.

5. Verify that successor agency remitted all unencumbered balances of RDA funds to the county controller for distribution to taxing entities, pursuant to Health and Safety Code section 34177(d).

   Finding: We noted there are no unencumbered balances as of January 31, 2012 for the successor agency to remit to the County Auditor-Controller.

F. Establish each redevelopment agency’s assets and liabilities in compliance with Health and Safety Code 34182(a)(2) by performing the following: (These Are Additional Procedures as Requested and Agreed to by the County)


   Finding: See results summarized at Attachment E. For the establishment of assets at January 31, 2012, we summarized our results at Attachment A.

2. Obtain a summary schedule and detail listing of the redevelopment agency’s liabilities as of June 30, 2010, June 30, 2011 and January 31. Total the detail listing to the summary amounts.
Finding: See results summarized at Attachment E. For the establishment of liabilities at January 31, 2012, we summarized our results at Attachment B.

3. Compare each period’s assets and liabilities in Procedure F.1 and F.2 and document the changes.

Finding: The changes were documented as additions and deletions, which is the most efficient way to document the changes as required by Procedure F.4.

4. Obtain a listing of the additions and deletions of assets and liabilities for the periods:
   - June 30, 2010 to June 30, 2011
   - July 1, 2011 to January 31, 2012

Finding: See results summarized at Attachment E.

5. Sum the activity to ensure: beginning balance plus additions less deletions equals ending balance.

Finding: No exception noted as a result of performing this procedure. Additions and deletions are summarized at Attachment E.

6. For each asset, confirm its existence by either physically observing the asset (preferred) or, if asset is not reasonably available for viewing, obtain documentation confirming the existence of the asset.

Finding: We could not confirm the existence of assets for time periods that have passed, so as an alternative we agreed amounts to the audited financial statements. Furthermore, we confirmed property ownership with the County. Thus, we reconciled the assets to audited financial statements as of 6/30/10 and 6/30/11 and reviewed the general ledger transactions for the period 7/1/11 – 1/31/12 and agreed it to the 1/31/12 trial balances.

7. Provide documentation of the asset cost, date placed in service, current condition, and ownership by the RDA and successor agency.

Finding: We agreed the asset cost to the audited financial statements and confirmed the property ownership with the County as described in Note 1 through 4 of Attachment E.

8. For deletions, obtain documentation of the disposal, including manner of disposal and, if a sale or transfer, the entity or person receiving the asset.

Finding: These procedures are not applicable as there are no deletions of capital assets.


Finding: We observed transferred financial resources in Attachment F.

10. Obtain a list of assets transferred from the RDA. For assets transferred during these periods from the RDA (for example, to the sponsoring community, JPA, or economic development corporation):
    - Provide a listing of all transferred assets, including the item(s) value and entity or person to which the RDA transferred the item.
    - Provide documentation of the reason for the transfer.
    - Identify if the State Controller’s Office (SCO) has reviewed the transfer.
    - If reviewed by the SCO, provide results of the SCO review.
    - If not reviewed by the SCO, provide the reason not reviewed.
Finding: See results summarized at Attachment G. The City filed the Asset Transfer Assessment with the State Controller’s Office on April 11, 2012 and there has been no correspondence received from the State Controller’s Office as of the date of the AUP report.

11. For assets that are Low and Moderate Income Housing Funds:
   • Provide substantiation of the effect of any subsequent legislation (if passed) on the transfer.

Finding: RDA Trailer Bill (AB 1484) which became law on June 27, 2012 modified and provided some clarification to the treatment of housing assets under the RDA Dissolution Act (ABx1 26). It now includes a definition of housing assets and requires certain actions that must occur by August 1, 2012 with respect to the transfer of housing assets. It requires the transferred assets and future revenues from housing assets be maintained in the Low and Moderate Income Housing Assets Fund of the housing successor and that such funds be used in accordance with existing California Redevelopment Law. It allows the use of unspent housing bond proceeds issued prior to January 1, 2011 to be used for housing projects, consistent with the bond covenants, which must be listed on the ROPS.

   • Verify the agency received an unqualified opinion on the financial statements; if other than unqualified, document the reasons for the qualification.
   • Obtain copies of the audit, management letter, and any other results/products delivered by the auditors.
   • Trace asset and liability amounts as of June 30, 2010, and June 30, 2011, to the annual financial audit of the Agency. Identify reasons for differences.

Finding: We obtained copies the former redevelopment agency’s audited financial statements and management letters for the fiscal year ended June 30, 2010 and June 30, 2011 and noted unqualified opinions for both fiscal years. Refer to Attachment E for the June 30, 2010 and 2011 assets and liabilities, which reconciled to the audited financial statements for those dates.

13. Perform analysis as follows:
   • Compare the financial statements as of June 30, 2010, to the statements as of June 30, 2011, and January 31, 2012.
   • Identify fluctuations in amounts greater than $5,000, and obtain an explanation from the successor agency of the major causes of the variances. For this fluctuation analysis, include all amounts (revenue, expense, assets, liabilities, and fund balance).
   • Correlate revenue received (for example lease payments received) to the assets that generated the revenue.
   • Read the footnotes. Identify assets.
   • Trace assets identified above to the RDA assets as of January 31, 2012. Identify and substantiate reasons for differences.
   • Review expenditures made after June 28, 2011 that exceeds $500, to ensure they met the conditions of Part 1.8 (commencing with Health & Safety Code Section 34161).
   • For each expenditure over $500, obtain its rationale.
   • For each expenditure made that is greater than $10,000, obtain substantiation that it meets the requirements of Part 1.8.
   • Confirm assets with successor agency personnel.
City of Sunnyvale Redevelopment Agency
Agreed-Upon Procedures and Findings

- Ask successor agency personnel if there are any assets not recorded.
- Obtain a written statement from successor agency personnel verifying that all assets have been recorded.

**Finding:** For the results of the procedures related to comparing the financial statements at three reporting dates (June 30, 2010, June 30, 2011 and January 31, 2012) and the reporting of fluctuations between these dates, see the analysis at Attachment F.

During the seven months ended January 31, 2012, the RDA received revenue related to property taxes and investment income. The assets generating the investment income are investments held in the City’s treasury and in fiscal agent accounts. We have reconciled the June 30, 2011 assets to the audited financial statements for the year ended June 30, 2011, including footnote disclosures, and have determined that all assets reported in Attachment F agree to the previous audited financial statements. Based on these two procedures, we did not note any differences with the type of assets reported at January 31, 2012. We reviewed all expenditures over $500 at Procedure B.4, and obtained the proper rationale and substantiation as applicable.

We obtained confirmation from the Successor Agency that the listing of assets obtained during our procedures are complete, and that there are no assets not recorded in the accounting records. We confirmed these assertions in the management representation letter obtained from the Successor Agency.

**G. To document and determine each redevelopment agency’s pass-through payment obligations to other taxing agencies**

**Finding:** The County did not request us to complete this procedure. See results summarized at Attachment H prepared by the County.

**H. To document and determine both the amount and the terms of any indebtedness incurred by the redevelopment agency. (These Are Additional Procedures as Requested and Agreed to by the County.)**

1. For each indebtedness incurred by the agency that will be transferred to the control of the Successor Agency, i.e. Enforceable Obligations:
   - Reconcile it to the liabilities listed in Procedure F, as of each of these dates:
     - June 30, 2010
     - June 30, 2011 and
   - Reconcile the indebtedness obligations to the audited financial statements, where applicable, as of June 30, 2010 and June 30, 2011.

**Finding:** The indebtedness obligations transferred to the Successor Agency are summarized at Attachment B, and have been reconciled to the obligations in Attachment E, which were in turn reconciled to the June 30, 2010 and June 30, 2011 audited financial statements in Procedure F.12.
### City of Sunnyvale Redevelopment Agency
#### Detailed Schedule of Procedures and Findings

<table>
<thead>
<tr>
<th>Procedure Number:</th>
<th>Payee</th>
<th>Description</th>
<th>Original EOPS (8/1/11 - 12/31/11)</th>
<th>Amended EOPS (1/1/12 - 6/30/12)</th>
<th>Agreed Enforceable Obligation to Documentation?</th>
<th>Amount Based on Estimate? (Y/N)</th>
<th>Obligation as of 6/28/11? (Y/N)</th>
<th>Statement of Indebtedness FY 2011-12</th>
<th>Changes from Initial EOPS to Amended EOPS</th>
<th>Explanation of Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>City of Sunnyvale Redevelopment Agency</td>
<td>2011 Amended Disposition and Development and Owner Participation Agreement Article 8</td>
<td>45,580,726</td>
<td>52,894,951</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>7,187,558</td>
<td>(25,301,598)</td>
<td>7,187,558</td>
</tr>
<tr>
<td>16</td>
<td>State Water Resources Control Board (Article 4 only)</td>
<td>2012 Amended Disposition and Development and Owner Participation Agreement Article 4</td>
<td>1,875,264</td>
<td>1,886,146</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N/A</td>
<td>N/A</td>
<td>7,187,558</td>
</tr>
<tr>
<td>17</td>
<td>Agency staff and professional services for DDA (Entire Agreement)</td>
<td>To monitor and administer rights and obligations under the ADDOPA</td>
<td>760,000</td>
<td>760,000</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
<td>N/A</td>
<td>N/A</td>
<td>760,000</td>
</tr>
</tbody>
</table>
## City of Sunnyvale Redevelopment Agency

### Detailed Schedule of Procedures and Findings

<table>
<thead>
<tr>
<th>Procedure Number:</th>
<th>A1</th>
<th>A2</th>
<th>A.1 and A.2</th>
<th>A.6.7</th>
<th>Explanation of Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Low and Moderate Income Housing Fund</td>
<td>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.</td>
<td>2-1</td>
<td>23,500,062</td>
<td>1-10</td>
<td>15,711,287</td>
</tr>
<tr>
<td>Administration and operation of RDA</td>
<td>Administrative and legal services; General Fund in-lieu payments for treasury and accounting support.</td>
<td>1-8</td>
<td>5,858,172</td>
<td>1-11</td>
<td>4,417,627</td>
</tr>
<tr>
<td>RDA Special Projects</td>
<td>Technical support and outside legal counsel services with dissolution and winding down of assets of RDA</td>
<td>1-9</td>
<td>768,358</td>
<td>1-12</td>
<td>175,000</td>
</tr>
<tr>
<td>Bond Covenants Other Than Principal and Interest Debt Service Payments</td>
<td>Fees for trustee service, audit, rebate analysis, disclosure consulting</td>
<td>1-13</td>
<td>216,000</td>
<td>1-14</td>
<td>85,334,193</td>
</tr>
<tr>
<td>20% Housing Set Aside</td>
<td>Low &amp; Moderate Income Housing Fund</td>
<td>1-7</td>
<td>37,322,997</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Pass Through to Taxing Agencies</td>
<td>The payment will start once the original $118 million tax increment cap is reached.</td>
<td>2-2</td>
<td>8,747,073</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Basic Aid Payments to Schools</td>
<td>CNL Section 33676 (b)</td>
<td>2-3</td>
<td>13,094,149</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Prior Year Roll Correction</td>
<td>County of Santa Clara</td>
<td>324,955,769</td>
<td>$217,344,488</td>
<td>$317,993,832</td>
<td>(79,181,749)</td>
</tr>
<tr>
<td>Capital/Special Project Budget</td>
<td>City of Sunnyvale</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>2,643,624</td>
</tr>
<tr>
<td>Unclaimed Bond Proceeds</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>63,368</td>
<td>(63,368)</td>
</tr>
<tr>
<td>County Admin Fees</td>
<td>County of Santa Clara</td>
<td>2,333,364</td>
<td>(2,333,364)</td>
<td>324,955,769</td>
<td>$217,344,488</td>
</tr>
</tbody>
</table>
## City of Sunnyvale Redevelopment Agency

### Additions and Deletions of Assets

<table>
<thead>
<tr>
<th></th>
<th>Audited 6/30/10</th>
<th>Audited 6/30/11</th>
<th>Unaudited 1/31/12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments Held by Agency</td>
<td>$2,753,760</td>
<td>$13,652,043 (14,518,907)</td>
<td>$5,714,125 (6,899,378)</td>
</tr>
<tr>
<td>Cash and Investments-Restricted</td>
<td>1,928,741</td>
<td>1,710,048 (1,708,566)</td>
<td>1,112,199 (1,003,391)</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,077</td>
<td>18,753 (2,153)</td>
<td>17,677 (17,677)</td>
</tr>
<tr>
<td>Deferred Charges</td>
<td>392,073</td>
<td>359,652 (32,421)</td>
<td>327,142 (32,510)</td>
</tr>
<tr>
<td>Capital Assets: Land and Nondepreciated Assets*</td>
<td>13,959,752</td>
<td>13,959,752</td>
<td>13,959,752</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$19,035,403</td>
<td>$15,380,844 (16,262,047)</td>
<td>$17,027,528</td>
</tr>
</tbody>
</table>

### Changes to Capital Assets

<table>
<thead>
<tr>
<th></th>
<th>Audited 6/30/10</th>
<th>Audited 6/30/11</th>
<th>Unaudited 1/31/12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>325 South Taaffe St. (APN 209-34-021)</td>
<td>2,369,747</td>
<td>2,369,747</td>
<td>2,369,747</td>
</tr>
<tr>
<td>225 South Taaffe St. (APN 209-34-025)</td>
<td>2,318,001</td>
<td>2,318,001</td>
<td>2,318,001</td>
</tr>
<tr>
<td>330 South Murphy Ave. (APN 209-35-014)</td>
<td>3,297,653</td>
<td>3,297,653</td>
<td>3,297,653</td>
</tr>
<tr>
<td>Lot A of Tract No. 9925</td>
<td>3,956,243</td>
<td>3,956,243</td>
<td>3,956,243</td>
</tr>
<tr>
<td><strong>Total Land</strong></td>
<td>$13,959,752</td>
<td>$13,959,752</td>
<td>$13,959,752</td>
</tr>
</tbody>
</table>

**Note:**

1. As presented by the City staff, as part of the approved development agreement between the RDA and project Developer, the Developer was required to construct a four level underground parking structure on the RDA parcel. All of the parking situated on the two bottom levels and approximately one-half of the parking on the second level is owned by the Developer. The remaining one-half of the parking on the second level and all of the parking in the top level of the parking structure is public parking. The RDA was required to construct a public park (Plaza Del Sol) using funds borrowed from the City on top of the underground parking structure. This park is maintained by the City.

2. As presented by the City staff, the RDA leases land to the City. The City sub-leased the land to the owner of the Town Center property. The term of the Public Parking Ground Lease for the Town Center ends on 10/1/2092.

3. Public right of way (streets, sidewalks).

4. As presented by City staff, the total land value of $13.9 million, as reported in the audited financial statements, was a combination of actual costs, including demolition cost of parking structure, and estimated fair value of contributed land under GASB 34 requirements. This land value does not reflect land-use restrictions, land conditions, and other factors that impact the current market value.

### Additions and Deletions of Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Audited 6/30/10</th>
<th>Audited 6/30/11</th>
<th>Unaudited 1/31/12</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable and Accrued Liabilities</td>
<td>$1,260,837</td>
<td>$684,551 (785,458)</td>
<td>$125,555 (698,144)</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>245,007</td>
<td>1,159,930 (12,204)</td>
<td>133,464 -</td>
</tr>
<tr>
<td>Town Center Public Improvement obligations</td>
<td>64,671,255</td>
<td>6,839,817 (8,830,951)</td>
<td>3,828,102 (4,888,407)</td>
</tr>
<tr>
<td>Advances from other funds (City Loans)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>1,705,015</td>
<td>1,560,000 (145,015)</td>
<td>45,000 -</td>
</tr>
<tr>
<td>Due Within One Year</td>
<td>17,624,791</td>
<td>232,803 (15,048,993)</td>
<td>3,956,243 -</td>
</tr>
<tr>
<td>Due in More than One Year</td>
<td>17,624,791</td>
<td>1,560,000 (145,015)</td>
<td>4,500,000 -</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$85,506,905</td>
<td>$12,456,352 (11,332,121)</td>
<td>$6,629,645 (6,825,541)</td>
</tr>
</tbody>
</table>

**Note:**

1. As presented by the City staff, as part of the approved development agreement between the RDA and project Developer, the Developer was required to construct a four level underground parking structure on the RDA parcel. All of the parking situated on the two bottom levels and approximately one-half of the parking on the second level is owned by the Developer. The remaining one-half of the parking on the second level and all of the parking in the top level of the parking structure is public parking. The RDA was required to construct a public park (Plaza Del Sol) using funds borrowed from the City on top of the underground parking structure. This park is maintained by the City.

2. As presented by the City staff, the RDA leases land to the City. The City sub-leased the land to the owner of the Town Center property. The term of the Public Parking Ground Lease for the Town Center ends on 10/1/2092.

3. Public right of way (streets, sidewalks).

4. As presented by City staff, the total land value of $13.9 million, as reported in the audited financial statements, was a combination of actual costs, including demolition cost of parking structure, and estimated fair value of contributed land under GASB 34 requirements. This land value does not reflect land-use restrictions, land conditions, and other factors that impact the current market value.
### City of Sunnyvale Redevelopment Agency

**Analysis of Assets, Liabilities and Transfers as of January 31, 2012**

**County of Santa Clara Auditor-Controller**

**Per Audited Financial Statements**

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Unaudited Comparison</th>
<th>Per Audited Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>06/30/11</td>
<td>01/31/12</td>
</tr>
<tr>
<td>1</td>
<td>Cash and Investments Held by Agency</td>
<td>$1,886,896</td>
<td>$701,643</td>
</tr>
<tr>
<td>2</td>
<td>Cash and Investments Restricted</td>
<td>$1,740,241</td>
<td>$2,038,951</td>
</tr>
<tr>
<td>3</td>
<td>Receivables</td>
<td>$17,872</td>
<td>$17,637</td>
</tr>
<tr>
<td>4</td>
<td>Due from Other Funds</td>
<td>$14,673,336</td>
<td>$14,673,336</td>
</tr>
<tr>
<td></td>
<td>Total Assets</td>
<td>$18,508,132</td>
<td>$17,413,970</td>
</tr>
<tr>
<td>5</td>
<td>Accounts Payable and Accrued Liabilities</td>
<td>$1,159,930</td>
<td>$587,341</td>
</tr>
<tr>
<td>6</td>
<td>Town Center Public Improvement obligations</td>
<td>$4,510,795</td>
<td>$6,508,319</td>
</tr>
<tr>
<td>7</td>
<td>Advances from other funds</td>
<td>$14,673,336</td>
<td>$14,673,336</td>
</tr>
<tr>
<td>8</td>
<td>Due to other funds and agencies</td>
<td>$16,604,290</td>
<td>$16,712,327</td>
</tr>
<tr>
<td>9</td>
<td>Total Liabilities</td>
<td>$82,574,182</td>
<td>$82,838,812</td>
</tr>
<tr>
<td>10</td>
<td>Restricted</td>
<td>$16,604,290</td>
<td>$16,712,327</td>
</tr>
<tr>
<td>11</td>
<td>Unassigned</td>
<td>$(80,670,340)</td>
<td>$(82,137,149)</td>
</tr>
<tr>
<td>12</td>
<td>Total Fund Balance</td>
<td>$(64,080,050)</td>
<td>$(65,424,842)</td>
</tr>
<tr>
<td>13</td>
<td>Property taxes</td>
<td>$9,675,964</td>
<td>$9,675,964</td>
</tr>
<tr>
<td>14</td>
<td>Investment and income</td>
<td>$5,883,571</td>
<td>$5,883,571</td>
</tr>
<tr>
<td>15</td>
<td>Total Revenues</td>
<td>$15,559,535</td>
<td>$15,559,535</td>
</tr>
<tr>
<td>16</td>
<td>EXPENDITURES</td>
<td>$7,002,009</td>
<td>$4,330,085</td>
</tr>
<tr>
<td>17</td>
<td>Total Expenditures</td>
<td>$9,224,007</td>
<td>$6,549,731</td>
</tr>
<tr>
<td>18</td>
<td>Other Financing Sources (Uses)</td>
<td>$9,224,007</td>
<td>$6,549,731</td>
</tr>
<tr>
<td>19</td>
<td>Transfers out</td>
<td>$11,481,395</td>
<td>$5,883,249</td>
</tr>
<tr>
<td>20</td>
<td>Total Other Financing Sources (Uses)</td>
<td>$9,224,007</td>
<td>$6,549,731</td>
</tr>
</tbody>
</table>

**Net Changes in Fund Balances**

|                     | $459,308 | $(1,358,792) | $(1,814,100) | | $(3,873,943) | $459,308 | $4,329,251 | |
### City of Sunnyvale Redevelopment Agency

**Asset Transfer Schedule**  
**For the period 1/1/11 to 1/31/12**

<table>
<thead>
<tr>
<th>Asset Description</th>
<th>Amount</th>
<th>Transfer Date</th>
<th>Transfer To</th>
<th>Reason for Transfer</th>
<th>Transfer Reversed?</th>
<th>Date Reversed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$8,830,951</td>
<td>6/30/2011</td>
<td>City of Sunnyvale</td>
<td>Repay 1977 City loan</td>
<td>No</td>
<td>N/A</td>
</tr>
<tr>
<td>Cash</td>
<td>4,988,407</td>
<td>1/31/2012</td>
<td>City of Sunnyvale</td>
<td>Repay 1977 City loan</td>
<td>No</td>
<td>N/A</td>
</tr>
</tbody>
</table>

* $5,626,662 was the amount listed in the asset transfer schedule submitted to the California State Controller's Office in April 2012. The difference was due to the City's return of $638,255 loan repayment as of 1/31/12. Per City Staff, this reversal was done so that the Successor Agency would have sufficient cash at 1/31/12 to pay the enforceable obligations through June 30, 2012. This was caused by the change in timing in the use of property tax allocations as a result of the dissolution.
CITY OF SUNNYVALE REDEVELOPMENT AGENCY

PASS-THROUGH OBLIGATIONS

Review of the pass-through obligations (Procedures E.1, E.2, and G) was completed by County of Santa Clara Finance Agency Staff.

The Sunnyvale Redevelopment Agency does not have any statutory or negotiated pass-through obligations to any taxing entities.
September 17, 2012

Redevelopment Successor Agency of the City of Sunnyvale
650 W. Olive Avenue
Sunnyvale, CA 94088

City of Sunnyvale Oversight Board
659 W. Olive Avenue
Sunnyvale CA 94088

Department of Finance – Attention Robert Scott
915 L Street
Sacramento CA 95814

Subject: Objection to Sunnyvale Successor Agency third ROPS

In our Notice of Objection dated August 28, 2012, objection was made to line 4 of the subject ROPS. Please find enclosed our position paper as to why the subject City Loan does not qualify as an exemption under Health and Safety Code Section 34171 (d) (2).

While the transaction appears at first to be a little layered, the exhibits A and B help unravel the complexity and ultimately this matter is very straightforward. Please contact our AB X1-26 Audit Manager John Guthrie at 408-299-5246 (or john.guthrie@fin.sccgov.org) if you have any questions.

Respectfully submitted,

Vinod Sharma
Director Finance Agency
Santa Clara County

cc: Grace Leung
    Brice McQueen
    Kathy Berry
RDA Loan from the City of Sunnyvale per 1977 Reimbursement Contract

Question:

Does the Loan from the City of Sunnyvale to its RDA pursuant to the 1977 Reimbursement Contract Qualify as an “Enforceable Obligation” under Health and Safety Code Section 34171(d)(2)?

Answer:

Based upon a detailed review of the transaction, it does not.

Background:

On May 1, 1977 the City and the RDA entered into a lease for a parking facility to be constructed (project lease) and, based on this lease, the RDA sold $11.2 million Series A Parking Lease Revenue Bonds. Simultaneously, the Sunnyvale RDA entered a Reimbursement Contract with the City to provide reimbursement to the City for amounts paid out by the City to the RDA for rental payments made under the project lease and for all “contributions” (including future contributions) made by the City to the Agency. At the time, the City also transferred assets to the Agency without consideration.

On May 1, 1978 the City sold property to the Agency for $1,360,673, which was recorded as the first amount due under the Reimbursement Contract and, that same day, the RDA sold $11.1 million of Series B Parking Lease Revenue Bonds. Debt service of $1.73 million annually commenced on the two series in 1980, and City rent payments paid under the project lease were recorded as loan additions due to the City under the Reimbursement Contract.

The Reimbursement Contract calls for an interest rate of 8% and the City has provided a spreadsheet showing all loan additions, interest accruals and repayments by the Agency. On that schedule, it should be noted that in 2009 the City made a contribution to the Agency, which was listed as a project payment of $6.8 million. According to the City, this contribution has since been paid off. The current outstanding balance of the Reimbursement Contract is $26.8 million and it is listed on the ROPS as $41.6 million, which includes estimated additional interest at 8% until 2018 when it is estimated to be paid off.

Health and Safety (H&S) Code sections 34171 and 34178(a) state that City-RDA agreements are not enforceable obligations. The Reimbursement Contract is a City-RDA agreement, and hence may not be currently enforced as a matter of law. However, the legislation provides a specific vehicle for reinstating such loans, by allowing their restoration by the oversight board if the successor agency receives a “finding of completion” from the State Department of Finance. All such loans, however, must be recomputed at Local Agency Investment Fund (LAIF) interest rates from inception. Our calculations indicate that reducing interest from the 8% rate per the agreement to LAIF rates would decrease the current loan balance from $26.8 million to $220,684. In other words, at LAIF rates the loan would be near the point of being paid off.
Lease Obligation Bond Structure:

Exhibit A shows the basic lease obligation bond structure that the City and RDA used to sell the bonds. Specifically, (1) the City entered a parking facilities lease with the RDA promising to pay up $2 million dollars a year in rent payments for the use of a (to be developed) parking facility. Based upon this pledge (2) the RDA sold $11.2 million of Series A lease obligation bonds and (3) used the proceeds to (4) construct the facility. One year later a second Series B for $11.1 million was also issued for the facility which was also covered under the parking facility lease. In 1980 the facility was completed and (5) annual lease payments commenced from the City to the RDA of $1.73 million, which (6) the RDA used to make debt payments to the bond holders.

This describes the complete transaction as it was used for the issuance of debt and as it was disclosed in the Series A Official Statement.

Exhibit B shows the previously described basic transaction plus the addition of a separate agreement between the City and the RDA: the (7) Reimbursement Contract (i.e., the agreement at issue here). Under this agreement each lease payment made by the City to the RDA under the parking facility lease would simultaneously (8) be added to the balance due on an escalating City loan to the RDA. Additionally this agreement provided for (9) the inclusion of other future “contributions” to be added to the loan balance and also included an 8% interest rate on the unpaid balance. The RDA was to pay the loan off from (10) excess tax increments after payment of senior bond debt and ongoing project costs.

Discussion:

City of Sunnyvale and its consultants Goldfarb and Lipman have stated to the Oversight Board that the City loan is an exception to the general rule under H&S Code section 34171(d)(2) that contracts between the redevelopment agency city that created it do not constitute “enforceable obligations.” This section states that written agreements may be exempt from this exclusion if they were “entered into (A) at the time of issuance . . . of indebtedness obligations, and (B) solely for the purpose of securing or repaying those debt obligations . . . .”

This H&S code section provides a very narrow window for exceptions and is clearly intended to protect lease obligation financing between two agencies under existing rental agreements. The purpose here is to protect debt holders from any interruption of debt payments. To qualify for this exception, both of the requirements (A) and (B) must be met. We will examine each in turn.

The first question is whether this Reimbursement Contract meets the requirements of subsection (A) as having been entered into at the time of debt issuance of indebtedness obligations. Since the agreement was entered into the same day as the first debt issuance, it arguably could meet this requirement with respect to the Series A Parking Lease Revenue Bonds. But it would not meet the requirements for any of the other transactions covered by this agreement.

On the second element—whether the loan was entered into “solely for the purpose of securing or repaying those debt obligations”—the Reimbursement Contract fails on several levels.
Specifically:

1. As described above under Lease Obligation Bond Structure, the Reimbursement Contract is independent of the actual issuance of debt and had no role in securing or repaying the two debt issues. Instead, the Reimbursement Contract's sole purpose was to provide for the eventual return of rental payments and contributions from future excess tax increments to the City. As this purpose was solely to protect the City's interest, it may have been necessary in order to obtain City Council approval for the financing, but it had no role in securing or repaying the actual debt issuances themselves. In fact, it was the project lease that was the key vehicle for securing and repaying the debt obligations but the project lease did not nor could not result in an RDA debt to the City. Instead, the project lease created an obligation of the City to the RDA. This can be clearly seen by comparing Exhibits A and B.

Further proof of this can be found in the official statements for the debt issues. The Series A Official Statement describes the project lease agreement in detail (as would be expected in such an arrangement) but does not even mention the repayment contract. One year later, the Series B Official Statement again describes the project lease agreement as the basis of the security and only casually mentions the Reimbursement Contract. Specifically it stated that:

"Pursuant to a reimbursement agreement between the Agency and the City any surplus tax increment revenues received by the Agency (in excess of debt service requirements on outstanding 1977 Bonds) may be applied (but are not pledged) to city lease payments for application of debt service on the debt described herein."

What investors were told here was that surplus tax increments could be applied to city lease payments. No investor would have relied on this non-pledge as securing or paying either debt issuance. The City was already responsible for the lease payments via the lease.

2. The Reimbursement Contract itself was not intended to be used solely for securing or repaying debt issuances since it includes the provision for repayment of past and future "contributions" related to the subject project. Records show that over the three and a half decades, it was used as a utility vehicle for several different loan transactions between the City and RDA, including the original loan balance from the sale of land of $1.36 million and the $6.8 million project payment mentioned above and the add-on of the Series B Parking Lease Revenue Bonds a year later.

What is particularly interesting to note is that the City accounts for all components in their loan spreadsheet and uses a Last-in-First-Out (LIFO) approach in paying off the various components of debt under the Reimbursement Contract. Since 1977 the $1.36 million from the original land sale is still on the books and will be the last item paid off. At 8% interest, the balance for the property sale has increased to over $18.9 million. This represents the majority of the remaining loan balance (approximately 70%), and it has nothing to do with securing the two debt issuances.
3. While the 8% interest rate was not an excessive interest rate when the Reimbursement Contract was first entered, for the last two decades the interest rate has become out of alignment with appropriate rates of interest and has increased the loan balance far beyond a reasonable level. These rates neither reflect the City's pool investment rate nor any underlying debt interest rate. These facts alone would argue against the idea that such loan agreements were entered into or used solely for the purpose of paying or securing bond debt.

The required recalculation of city loans to the LAIF rate from origination was adopted in AB 1484 to approximate a reasonable rate that such city loans would have earned had the money stayed in city treasuries. The fact that a LAIF adjustment will result in a $26.6 million write down shows how out of alignment the 8% has become over the three and a half decades of this loan's existence.
The diagram illustrates the financial and contractual relationships between various entities involved in the construction and operation of a parking facility. Here is a detailed explanation of the flow depicted in the diagram:

1. Investors
2. Bonds
3. Lease Obligation
4. Parking Facility
5. Rent Payments
6. Debt Payments
7. City
8. RDA
9. 1977 Parking Lease Obligation Bonds
10. City of Sunnyvale Project

The process begins with investors acquiring bonds, which are then used to finance the construction of the parking facility. The facility is leased to the RDA, with 1977 Parking Lease Obligation Bonds used to pay off the debt. Rent payments are made, which are used to pay back the debt. The City of Sunnyvale is involved in the project, and the lease agreement between the RDA and the City is crucial for the financial sustainability of the facility.