

Exhibit 12

RDA Exhibit

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Successor Agency to RDA

In January 2011, Governor Jerry Brown began to advocate for the dissolution or curtailment of redevelopment agencies in California to help solve the state's \$25 billion budget deficit. Given this possibility, the RDA began investigating the best way to continue redevelopment to insure the future of economic development and affordable housing development in the City.

Consequently, in March 2011, the RDA executed certain Funding Agreements with the SBEDC, and another non-profit entity, Affordable Housing Solutions ("**AHS**"), which had been previously used by the RDA to carry out certain redevelopment activities. SBEDC and AHS are collectively the "**Non-profits**". The Funding Agreements pledged future tax-increment to, and contemplated the conveyance of, RDA property to, the Non-profits in exchange for the Non-profits' agreement to undertake specified economic development and affordable housing development projects. As anticipated by the Funding Agreements and as authorized by the RDA Board, in March 2011 the RDA transferred its real property to SBEDC and AHS.

On June 27, 2011, Governor Brown signed Assembly Bill x1 26 (the "**Initial Dissolution Bill**") dissolving all redevelopment agencies in California, which was codified in the California Health & Safety Code. Nothing in the Initial Dissolution Bill prohibited the Funding Agreements or conveyance of property with the Non-profits and, accordingly, the City subsequently sought, and obtained on July 27, 2011, a State Superior Court judgment (the "**Validation Judgment**") validating the Funding Agreements and the transfer of title to the RDA Properties to the SBEDC and AHS. Following the Validation Judgment, in the late summer and fall of 2011, the SBEDC began work on two projects pursuant to the Funding Agreements: (i) redevelopment of the downtown movie theater complex; and (ii) repaving the parking lot for the municipal baseball stadium. In early 2012, the SBEDC entered into construction contracts for these projects – and work on the projects commenced shortly thereafter.

In December 2012, the California Supreme Court upheld the validity of the Initial Dissolution Bill, and on February 1, 2012, all redevelopment agencies in California were dissolved. Concomitantly, statewide, all funds and assets of the former redevelopment agencies were immediately transferred to successor agencies responsible for the obligations of the former redevelopment agencies. These successor agencies, pursuant to the Initial Dissolution Bill, are separate legal entities required to wind-down the activities of the former redevelopment agencies, including the use of former tax increment revenues to satisfy the former redevelopment agencies' debts. In the case of the RDA, the Common Council elected to serve as the governing body of the successor agency to the former RDA ("**Successor Agency**"). The City also elected to assume the role of successor housing agency for all housing matters of the former-RDA ("**Housing Successor**"). Accordingly, all assets and funds of the former-RDA were turned over to the Successor Agency and/or the Housing Successor, other than those properties previously transferred pursuant to the Funding Agreements.

The Initial Dissolution Bill also required the RDA (before its dissolution) and now requires the Successor Agency, to prepare periodic schedules of all legally enforceable obligations of the RDA coming due in each six-month period (January 1 to June 30 and July 1 to December 31). These schedules are referred to as "Recognized Obligation Payment Schedules" or "ROPS". In April and May 2012, the Successor Agency submitted two initial ROPS ("**Initial ROPS**") to the California Department of Finance ("**DOF**"), which has audit and oversight authority over the successor agencies under the Initial Dissolution Bill (and later Subsequent Dissolution Bill (defined below)). The Initial ROPS outlined all of the obligations of the former-RDA for the period January to December 2012, and pursuant to the Initial ROPS and the Successor Agency requested the DOF's approval of all related transactions that had been entered into in connection with the dissolution of the RDA – including the Funding Agreements. On May 31, 2012, the DOF denied the validity of the Funding Agreements and disallowed expenditures made in accordance with the Funding Agreements for the period of January to June 2012 (the period covered under the Initial ROPS). The City subsequently placed disallowed

amounts on a third Recognized Obligation Payment Schedule (“**Subsequent ROPS**”) for the period January to June 2013.

In June 2012, Governor Brown signed Assembly Bill 1484 (the “**Subsequent Dissolution Bill**”, with the Initial Dissolution Bill, the “**RDA Dissolution Laws**”), which modified the California Health and Safety Code in several ways, some of which had a significant impact upon the Successor Agency. The Subsequent Dissolution Bill added several provisions to the Health and Safety Code which effectively expanded the definition of a “City” to include entities controlled by a “city” – and applied the definition retroactively as “declarative of existing law”. In March 2013, based on this provision of the Subsequent Dissolution Bill and following a review of all asset transfers made by the former RDA after January 1, 2011, the State Controller’s Office (“**SCO**”) determined that all real property transfers from the RDA to the SBEDC must be unwound.

Another significant change made to the RDA Dissolution Laws by the Subsequent Dissolution Bill was the addition of a provision to the Health and Safety Code that prohibited any “party, public or private” from pursuing a validation judgment, such as the Validation Judgment, with respect to any action of a redevelopment agency or a successor agency that took place on or after January 1, 2011, unless, among other things, the DOF and the SCO had been properly noticed. The SCO interpreted this change in the law to invalidate the Validation Judgment, further supporting its determination that the property transfers to the SBEDC were invalid.

Finally, the Subsequent Dissolution Bill imposed a “claw-back” of RDA funds for expenditures disallowed by the DOF from January to June 2012 and created a new enforcement penalty (the withholding of city sales tax by the DOF for non-complying successor agencies). In July 2012, the DOF pursuant to this provision gave the Successor Agency five days to pay \$4.1 million to the County Auditor-Controller (or face a threatened withholding). As a result of the \$4.1 million “claw-back,” the Successor Agency had insufficient funds to pay its obligations

during 2012 – forcing the Successor Agency to use bond debt-service reserves to cover the short-fall in funding.

In October 2012, the Successor Agency submitted the Subsequent ROPS to the DOF for review. In addition to denying the obligations incurred under the Funding Agreements, the DOF also reduced funding to the Successor Agency by \$4.1 million because of the prior use of the bond debt-service reserves. The Successor Agency thereafter pursued two unsuccessful administrative appeals with the DOF.

In November 2012, the SCO issued a draft Asset Transfer Review (“**ATR**”) report and in March 2013, the SCO issued a final ATR that, among other things, demanded that the Successor Agency reverse the transfer of \$108 million of RDA property that the SCO found to have been previously transferred to SBEDC in violation of the Subsequent Dissolution Bill, “with any outstanding related liabilities to the Successor Agency”.

In September 2013, the Successor Agency, the Oversight Board governing the Successor Agency and the SBEDC adopted resolutions in an attempt to comply with the SCO’s orders in the ATR authorizing the quitclaim transfer of SBEDC properties to the Successor Agency “with any outstanding related liabilities” in accordance with the SCO’s ATR. Following review of these resolutions by the DOF (pursuant to its authority under the Initial Dissolution Bill), in March 2014, the DOF issued a final determination denying the Successor Agency’s resolutions to accept the transferred properties. The DOF also proposed the denial of approximately \$9.7 million worth of obligations, reclassified \$4.8 million of requested Redevelopment Property Tax Trust Funds (“**RPTTF**”), and adjusted the total available RPPTF by another \$5.8 million based on prior period adjustments.

Since December 2014, all SBEDC properties (except the Arden-Guthrie site, which has a HUD financial lien recorded against it) have been conveyed to the Successor Agency, and the Successor Agency has corrected almost all prior period adjustments imposed by the DOF.

The Successor Agency is now working to refinance its long-term bond and note debt to generate savings and benefit the taxing entities, inclusive of the City. The Successor Agency is

working to obtain a “Finding of Completion” and approval of a Long-Range Property Management Plan (“**Long-Range Plan**”) from the DOF. The Long-Range Plan will authorize the Successor Agency to dispose of Successor Agency property, generating additional one-time funds for the affected taxing entities including the City. These amounts have not been included into the City’s financial projections for the Plan.

Litigation against State Defendants

Following the City’s Petition Date, by letter dated March 4, 2013 (the “**March 4th Letter**”), the State threatened to withhold tax revenues due to the City and the RDA unless the City turned over approximately \$15.2 million allegedly held by the City. On March 26, 2013, the City commenced an adversary proceeding (adversary proceeding no. 6:13-1p-01127-MJ) in its Bankruptcy Case against the State of California (“**State**”) and various individuals in their official capacities as employees of the State (collectively, “**State Defendants**”) and filed a motion seeking an order determining that the automatic stays imposed by 11 U.S.C. §§ 362(a) and 922(a) applied to prevent the State Defendants from carrying out the actions threatened in the March 4th Letter (“**March 4 Order**”).

On August 22, 2013, the Bankruptcy Court denied the City’s motion without prejudice and granted the State Defendants’ motion to dismiss the amended complaint with leave to amend (“**Motion to Dismiss Order**”). The State Defendants appealed from the Motion to Dismiss Order, challenging the Bankruptcy Court’s denial of their Eleventh Amendment sovereign immunity defense. The City filed a second amended complaint on September 23, 2013, and the Bankruptcy Court approved a stipulation of the parties staying the proceedings pending the appeal of the Motion to Dismiss Order to the District Court. On June 4, 2014, the District Court reversed the decision of the Bankruptcy Court and held that the State Defendants could invoke their sovereign immunity defense in response to the City’s allegations concerning the withholding of disputed tax revenues from the Successor Agency, and remanded the case to the Bankruptcy Court.

The City and the State are in ongoing discussions regarding a resolution of demands made in the March 4 Order. The City anticipates continuing to work with the State until resolution of the remaining disputes.