



April 10, 2013

Kevin Riper, Administrative Services/Finance Director
City of Morgan Hill Successor Agency
17575 Peak Avenue
Morgan Hill, CA 95037

Dear Mr. Riper:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Morgan Hill (City) Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on February 25, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item No. 1 – 2008 Tax Allocation Bonds Series A & B Principal Payment in the amount of \$3,650,000 is partially denied. This amount was erroneously entered as \$3,650,000 when it should have been \$3,065,000. Therefore, the difference of \$585,000 in Redevelopment Property Tax Trust Funds (RPTTF) is denied.
- Item No. 4 – 2008 Tax Allocation Bonds Series A & B Letter-of-Credit Fee in the amount of \$501,733 is partially denied. The letter-of-credit fee should be \$490,613. Therefore, the difference of \$11,120 in RPTTF is denied.
- Items No. 10 and 21 totaling \$31,701 (\$30,000 and \$1,701, respectively) are considered general administrative costs and have been reclassified. Although this reclassification increased administrative costs to \$202,700, the administrative cost allowance has not been exceeded.
- Contract payments totaling \$316,000 funded by bond proceeds include the following:
 - Item No. 13 – CSG Consultants Inspections Contract in the amount of \$10,000
 - Item No. 30 – Hale Avenue Extension Project in the amount of \$216,000
 - Items No. 89 and 90 – Butterfield Blvd South Project totaling \$50,000
 - Item No. 91 – Cal Trans Project in the amount of \$40,000

HSC section 34177(l) (3) states that the ROPS shall be forward looking to the next six months. These items either do not have a current contract in place or were entered into

after June 27, 2011. HSC section 34163(b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. In addition, HSC section 34163 (c) prohibits a redevelopment agency from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Pursuant to HSC section 34191.4 (c), your request to use bond funds for these obligations may be allowable once the Agency receives a Finding of Completion from Finance.

- Item No. 71 – Rent in the amount of \$77,000 requested for the current period is denied. While it has been determined this item may be an enforceable obligation, the amount seems to be excessive for what the actual costs should be, given the winding down of the redevelopment agency. The amount should be recalculated to include only the amount used by the current successor agency. Until this amount is recalculated to a more reasonable amount, this item is denied for funding with RPTTF.
- Item No. 76 – 2008 Tax Allocation Bonds Series A & B Legal Counsel in the amount of \$55,000 related to an anticipated bond refinancing. HSC section 34177(l) (1) (E) states that RPTTF should only be used if there is no other funding source. Bond counsel should be funded from bond proceeds. Should the bond refinance fail and bond proceeds are not available for payment, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h). The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation if a deficiency were to occur.
- Item No. 92 – Butterfield Boulevard South in the amount of \$5,000 funded by bond proceeds is partially denied. This item is a one-time license fee of \$4,811. Therefore, the difference of \$189 is denied.
- Item No. 93 – Third Street Promenade in the amount of \$35,000 funded by bond proceeds are not obligations of the Agency. This contract is between the City of Morgan Hill and Joseph L. Albanese, Inc. The former RDA is neither a party to the contract nor responsible for payment of the contract. Therefore, this line item is not an enforceable obligation and not eligible for funding on the ROPS.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$2,422,534 as summarized on the next page:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 5,699,982
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 1	585,000
Item 4	11,120
Item 10*	30,000
Item 21*	1,701
Item 71	77,000
Item 76	55,000
Total approved RPTTF for enforceable obligations	\$ 4,940,161
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	202,700
Minus: ROPS II prior period adjustment	(2,720,327)
Total RPTTF approved for distribution:	\$ 2,422,534

*Reclassified as administrative cost

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14A%20Forms%20by%20Successor%20Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2013. Finance's determination is effective for this time period only and should not be conclusively relied upon for future periods. All items listed on a future ROPS are subject to a subsequent review and may be denied even if it was or was not denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the successor agency in the RPTTF.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

Mr. Kevin Riper
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Please direct inquiries to Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Tina Reza, Assistant Director of Finance, City of Morgan Hill
Ms. Irene Lui, Controller Treasurer, County of Santa Clara
California State Controller's Office