



May 17, 2013

Carol Giovanatto, City Manager
City of Sonoma Successor Agency
No. 1 The Plaza
Sonoma, CA 95476

Dear Ms. Giovanatto:

Subject: Recognized Obligation Payment Schedule

This letter supersedes California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 5, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Sonoma Successor Agency (Agency) submitted ROPS 13-14A to Finance on February 19, 2013, for the period of July through December 2013. Finance issued a ROPS determination letter on April 5, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more of the items denied by Finance. The Meet and Confer session was held on May 7, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of the specific items being disputed.

- Item No. 11 – City Loans in the amount of \$459,239. Finance continues to deny this item. The Agency contends that this item is an enforceable obligation because of the Cooperative Agreement between the Agency and the City of Sonoma (City). However, the Lease Agreement between the City and the Municipal Finance Corporation on July 1, 2008, obligated the City to the payment of the lease. The former Redevelopment Agency (RDA) is neither a party to the contract nor responsible for payment of the lease. Even though the former RDA signed a cooperative agreement with the City and agreed to pay the City for the lease on June 2, 2010, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable. HSC 34171 (d)(2) also states that written agreements entered into at the time of issuance and solely for the purpose of securing or repaying those debt obligations may be deemed enforceable obligations. However, the Cooperative Agreement between the City and the former RDA was not entered into at the time of debt issuance. Therefore, this item is not an enforceable obligation and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on the ROPS.
- Items No. 50 through 56 and 58 through 68 – Bond funded citywide projects in the amount of \$7,483,784. The Agency contends these items are enforceable obligations because they are necessary to the implementation of or were contemplated in the contracts entered into before June 27, 2011, and that HSC section 34191.4 does not

preclude the expenditure of bonds issued after January 1, 2011, provided that the use of those proceeds are consistent with the bond covenants and purposes for which the bonds were sold. Our review indicates that these were originally Items 30 through 48 on the January through June 2013 ROPS form, which were denied in Finance's December 18, 2013 letter. Finance continues to deny these items as HSC 34163 (b) prohibits agencies from entering into contracts after June 27, 2011. The contracts provided were either signed after June 27, 2011, or did not support the amount requested.

We note that pursuant to HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion by Finance will be allowed to use excess bond proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor Agencies are required to defease or repurchase on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they were issued after December 31, 2010. The bond proceeds requested for use were issued in March 2011. Therefore, the Agency's request to use these funds is denied.

In addition, per Finance's ROPS letter dated April 5, 2013, the following item continues to be denied and was not contested by the Agency:

- Item No. 27 – Village Green II Low Income Housing U.S. Department of Agriculture (USDA) Loan in the amount of \$750,297. This item is partially denied. An adjustment is made to only allow six months of the yearly claimed obligation of \$24,453 (half of \$48,906).

In addition, the USDA loan is a rental subsidy assistance program wherein the Government will credit 57.49 percent (or \$2,343.13) of the monthly payment of \$4,075.50. A journal entry is made to record this credit as rental assistance revenue; therefore, the subsidized portion is denied as a Redevelopment Property Tax Trust Fund (RPTTF) funding and must be funded by other revenue sources. This subsidized portion is calculated at \$14,059, which should be listed as "other" funding sources on the ROPS.

The total amount of RPTTF denied is \$38,512. Therefore, only \$10,394 is eligible for RPTTF funding.

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. Obligations deemed not to be enforceable shall be removed from your ROPS.

The Agency's maximum approved RPTTF distribution for the reporting period is \$3,317,405 as summarized below:

Approved RPTTF Distribution Amount	
For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 3,397,666
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 11	41,749
Item 27	38,512
Total approved RPTTF for enforceable obligations	<u>\$ 3,317,405</u>
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	<u>-</u>
Minus: ROPS II prior period adjustment	<u>-</u>
Total RPTTF approved for distribution:	\$ 3,317,405

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 that was self-reported by the Agency and the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. Please refer to the worksheet used by the CAC to determine the audited prior period adjustment for the Agency:

<http://www.dof.ca.gov/redevelopment/ROPS/view.php>

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/>

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.

Ms. Carol Giovanatto
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Please direct inquiries to Evelyn Suess, Supervisor, or Derk Symons, Lead Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Cathy Lanning, Administrative Services Manager, City of Sonoma
Mr. Erick Roeser, Property Tax Manager, County of Sonoma
California State Controller's Office