



November 8, 2013

Mr. Geoffrey Buchheim, Financial Services Manager
City of Menlo Park
701 Laurel Street
Menlo Park, CA 94025

Dear Mr. Buchheim:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Menlo Park Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 27, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, 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 for the reasons specified:

- Item No. 9 – Administrative costs in the amount of \$125,000. HSC section 34171 (b) limits the fiscal year administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Agency requests \$250,000 of RPTTF. The Agency's fiscal year administrative cap is \$250,000. The San Mateo Auditor-Controller (CAC) did not distribute funds for administrative costs for the July through December 2013 period. However, Finance permitted the retention of Other Funds and Accounts (OFA) balances in the OFA Due Diligence Review (DDR) in an amount sufficient to cover all approved ROPS 13-14A obligations, including \$125,000 of administrative costs. Therefore, \$125,000 is already being held by the Agency. As such, \$125,000 of RPTTF requested for ROPS 13-14B administrative costs is not allowed.
- Item Nos. 15, 16 and 17 – Legal and Miscellaneous Costs totaling \$100,000 (\$35,000, \$15,000, and \$50,000, respectively). These costs pertain to the renegotiation of the letter of credit rating for the Agency's 2006 Tax Allocation Bonds. Oversight Board (OB) Resolution No. 13-008 dated June 20, 2013, authorizing the Agency to expend up to \$50,000 to obtain a more favorable credit rating was never submitted to Finance. HSC section 34179 (h) requires all OB actions be provided to Finance. As such, OB Resolution No. 13-008 is invalid and costs associated with the OB action are disallowed. Therefore, Item Nos. 15, 16 and 17 are not enforceable obligations at this time.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. Upon review of the Agency's financial records and other documentation, Finance determined the Agency should have reserve balances in the amount of \$4,993,608, as specified.

- Reserve balances in the amount of \$285,321 – For the ROPS 13-14A period, the Agency received approval for RPTTF funding in the amount of \$3,201,389. Due to a projected shortfall, Finance allowed the retention \$1,540,656 in the OFA DDR. Subsequently, the CAC distributed RPTTF in the amount of \$1,946,054. As a result of the permitted retention and actual RPTTF distribution, the Agency was overfunded by \$285,321 $((1,540,656 + \$1,946,054) - \$3,201,389)$. Therefore, reserve balances in the amount of \$285,321 are available for expenditure on ROPS 13-14B obligations.
- Reserve balances in the amount of \$4,708,287 – During the review of the Agency's financial records, Finance determined the Agency did not account for the total amount of OFA non-restricted assets in the beginning balance of the OFA DDR as of June 30, 2012. The beginning OFA balance should have totaled \$36,893,615, not \$32,150,428. As a result, the OFA balances available for distribution to the taxing entities should have been \$16,280,219. The Agency has previously remitted \$11,571,935 of OFA balances to the taxing entities. Therefore, the difference of \$4,708,287 is available for expenditure on ROPS 13-14B obligations.

Therefore, the funding source for the following items are being reclassified to reserve balances totaling \$4,087,705 and in the amounts specified below:

- Item No. 1 – 2006 Las Pulgas Project Tax Allocation Bonds in the amount of \$3,071,389. The Agency requests \$3,071,389 of RPTTF; however, Finance is reclassifying \$3,071,389 to reserve balances. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has reserve balances available. Finance is approving the use of reserve balances for Item No.1 in the amount of \$3,071,389.
- Item Nos. 2, 4, and 5 – Bond Fees totaling \$8,615 (\$2,000, \$3,500, and \$3,115, respectively). The Agency requests \$8,615 of RPTTF; however, Finance is reclassifying \$8,615 to reserve balances. These items were determined to be enforceable obligations for the ROPS 13-14B period. However, the obligations do not require payment from property tax revenues and the Agency has reserve balances available. Finance is approving the use of reserve balances for Item Nos. 2, 4, and 5 totaling \$8,615.
- Item No. 9 – Administrative Costs in the amount of \$125,000. The Agency requests \$250,000 of RPTTF; however Finance is reclassifying \$125,000 to reserve balances. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has reserve balances available. Therefore, Finance is approving the use of reserve balances in the amount of \$125,000 for Item No. 9.

- Item No. 18 – 2006 TAB in the amount of \$882,701. The Agency requests \$882,701 of RPTTF; however, Finance is reclassifying \$882,701 to reserve balances. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has reserve balances available. Finance is approving the use of reserve balances in the amount of \$882,701 for Item No. 18.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment that was self-reported by the Agency. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below includes only the prior period adjustment that was self-reported by the Agency.

Except for items denied in whole or in part as enforceable obligations or for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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 RPTTF distribution for the reporting period is zero, as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	4,062,705
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations	\$ 4,312,705
Total RPTTF requested for non-administrative obligations	4,062,705
<u>Denied Items</u>	
Item No. 15	(35,000)
Item No. 16	(15,000)
Item No. 17	(50,000)
Total RPTTF approved for non-administrative obligations	3,962,705
Total RPTTF requested for administrative obligations	250,000
<u>Denied Item</u>	
Item No. 9	(125,000)
Total RPTTF approved for administrative obligations	125,000
Total RPTTF approved for obligations	\$ 4,087,705
ROPS III prior period adjustment	0
Items reclassified due to funds that should be used prior to requesting RPTTF	
Item No. 1	(3,071,389)
Item No. 2	(2,000)
Item No. 4	(3,500)
Item No. 5	(3,115)
Item No. 9	(125,000)
Item No. 18	(882,701)
Total RPTTF approved for distribution	0

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

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

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where funding was requested for the six month period. 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 HSC section 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.

Please direct inquiries to Wendy Griffe, Supervisor or Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Starla Jerome-Robinson, Assistant City Manager, City of Menlo Park
Mr. Bob Adler, Auditor-Controller, San Mateo County
California State Controller's Office