

December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 8, 2013. 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 Finance on September 27, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 8, 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 November 22, 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. 9 – Administrative costs in the amount of \$125,000. Finance continues to deny \$125,000 of this item. 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's fiscal year administrative cap is \$250,000 and they requested \$250,000 from the Redevelopment Property Tax Trust Fund (RPTTF). 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 balances in the Other Funds and Accounts (OFA) Due Diligence Review (DDR) in an amount sufficient to cover all approved ROPS 13-14A obligations, including \$125,000 of administrative costs. The Agency initially objected to this determination in their Meet and Confer request; however, during the Meet and Confer meeting, the Agency acknowledged that they did have the retained funds from the OFA DDR process to cover the \$125,000 administrative costs for the ROPS 13-14A period. Therefore, \$125,000 is already being held by the Agency and the \$125,000 requested from the RPTTF 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). Finance no longer denies these items; however, Finance reclassifies these items as administrative costs. 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; however, Finance is reclassifying these items as administrative costs and these items may be paid out of the administrative allowance.

HSC section 34179 (h) states that "written notice and information about all actions taken by an oversight board shall be provided to [Finance] by electronic means and in a manner of [Finance's] choosing." Finance requires all oversight board actions be submitted to the Redevelopment Administration inbox with the subject line stating the Agency's name, resolution number, and a brief description of the action taken. The Agency has not submitted OB Resolution No. 13-008 in this manner and therefore, this resolution is invalid.

- 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), the 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 initially determined the Agency should have reserve balances in the amount of \$4,993,608. However, based on further review during the Meet and Confer process, Finance determined the Agency should have reserve balances in the amount of \$285,321, as specified below.
  - 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.
  - Therefore, the funding source for Item No. 1 – 2006 Las Pulgas Project Tax Allocation Bonds in the amount of \$3,071,389 is being reclassified to reserve balances totaling \$285,321. 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 \$285,321.

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. The Agency's maximum approved RPTTF distribution for the reporting period is \$3,802,384, as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2014</b>	
Total RPTTF requested for non-administrative obligations	4,062,705
Total RPTTF requested for administrative obligations	250,000
<b>Total RPTTF requested for obligations</b>	<b>\$ 4,312,705</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>4,062,705</b>
<u>Reclassified to administrative obligations</u>	
Item No. 15	(35,000)
Item No. 16	(15,000)
Item No. 17	(50,000)
<b>Total RPTTF approved for non-administrative obligations</b>	<b>3,962,705</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>250,000</b>
<u>Reclassified from non-administrative obligations</u>	
Item No. 15	35,000
Item No. 16	15,000
Item No. 17	50,000
<u>Denied Item</u>	
Item No. 9	(125,000)
<b>Total RPTTF requested for administrative obligations after adjustments</b>	<b>225,000</b>
<b>Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)</b>	<b>125,000</b>
<b>Total RPTTF approved for obligations</b>	<b>\$ 4,087,705</b>
ROPS III prior period adjustment	0
Items reclassified due to funds that should be used prior to requesting RPTTF	
Item No. 1	(285,321)
<b>Total RPTTF approved for distribution</b>	<b>3,802,384</b>
<b>Administrative Cost Cap Calculation</b>	
Total RPTTF for 13-14A (July through December 2013)	3,076,389
Total RPTTF for 13-14B (January through June 2014)	3,962,705
<b>Total RPTTF for fiscal year 2013-14</b>	<b>7,039,094</b>
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	125,000
<b>Allowable RPTTF distribution for administrative cost for ROPS 13-14B</b>	<b>\$ 125,000</b>

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_13-14B_Forms_by_Successor_Agency/).

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 section 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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, 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