DEPARTMENT OF FINANCE

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November 14, 2013

Mr. Gary Ameling, Director of Finance
City of Santa Clara
1500 Warburton Avenue
Santa Clara, CA 95050

Dear Mr. Ameling:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Clara Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 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. 13 – Claimed Administrative Costs exceed the allowance by $632,156. HSC section 34171 (b) limits fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the successor agency or $250,000, whichever is greater. As a result, the Agency is eligible for $789,663 in administrative expenses. The Santa Clara County Auditor-Controller (CAC) distributed $125,000 for administrative costs for the July through December 2013 period, thus leaving a balance of $664,663 available for the January through June 2014 period. Although the Agency requests $1,296,819 for administrative cost, only $664,663 is available pursuant to the cap. Therefore, $632,156 of excess administrative cost is not allowed.

- Item No. 22 – ROEM Senior Housing (Predevelopment Loan) from other funds in the amount of $157,091. The Predevelopment Loan Agreement, dated April 19, 2011, is between the Housing Authority of Santa Clara and ROEM Apartment Communities. The former redevelopment agency (RDA) of the City of Santa Clara was never a party to the agreement and low and moderate income housing funds were never pledged towards the payment under the agreement. Therefore, Item No. 22 is not an enforceable obligation and not eligible for funding on ROPS.

- Item Nos. 23 through 29 – Affordable Housing Service Grant Agreements from other funds totaling $102,465. Section eight of the service agreements state that it shall be the Agency's sole discretion to extend the terms of the agreements for a third period and to determine the amounts to be paid. The Housing Authority of the City of Santa Clara

extended the service agreements to a third period extension on July 1, 2011. Therefore, the Housing Authority, at its sole discretion, obligated itself to payments during the third period. 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. Therefore, Item Nos. 23 through 29 are not enforceable obligation and not eligible for funding on ROPS.

- Item No. 30 – Affordable Housing Service Grant Agreement from other funds is partially denied in the amount of $20,642. Although the Agency requests expenditures from other funds in the amount of $70,642, only $50,000 is allowed pursuant to an enforceable obligation. The former RDA and InnVision executed an Affordable Housing Service Grant Agreement on October 7, 2010. Per the Agreement, the former RDA agreed to disburse an amount not to exceed $50,000. The Agreement was amended on November 15, 2011 to increase the amounts payable by the Agency. 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. Therefore, the amount in excess of $50,000 is not an enforceable obligation and not eligible for funding on ROPS.

- Item No. 31 – Sublease Interest from other funds in the amount of $2,027,717. The Sports and Open Space Authority (SOSA) and the former RDA entered into a Cooperation Agreement on January 23, 1996 related to three parcels: R-1, R-3, and R-4. The Cooperation Agreement states that the former RDA shall pay SOSA the amount of rent actually received. Neither the master leases nor the sublease state an obligation for the former RDA to pay SOSA rent received under the subleases. Pursuant to HSC section 34167.10, SOSA falls under the definition of sponsoring entity. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the sponsoring entity that created the RDA and the former RDA are not enforceable. Consequently, the Cooperation Agreement between the former RDA and SOSA is not an enforceable obligation and is no longer valid. Therefore, Item No. 31 is not an enforceable obligation and not eligible for funding on ROPS.

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 Redevelopment Property Tax Trust Funds (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. The Agency has available other funds totaling a minimum of $17,669,850. Per the City of Santa Clara's 2012 Comprehensive Annual Financial Report, lease revenues from Agency owned property and the Agency's leasehold interest total $11,986,499 for fiscal year 2013-14, or $998,875 per month. This figure only accounts for minimum revenues and does not account for such revenues as percentage rents. Finance will work further with the Agency to determine the amount of additional revenues received. The Agency has accumulated revenue from the period of June 30, 2012 through December 31, 2013 (18 months). Therefore, the Agency has available other funds totaling a minimum of $17,669,850 ($998,875*18).

Therefore, the funding sources for the following items, which were determined to be enforceable obligations for the ROPS 13-14B period, are being reclassified to other funds totaling $12,153,716 in the amounts specified below:

- Item No. 1 – 1999 Tax Allocation Bonds (Series A) in the amount of $854,431. The Agency requests $854,431 of RPTTF; however, Finance is reclassifying $854,431 to other funds.

- Item No. 2 – 1999 Tax Allocation Bonds (Series B) in the amount $2,119,891. The Agency requests $2,119,891 of RPTTF; however, Finance is reclassifying $2,119,891 to other funds.

- Item No. 3 – 2002 Tax Allocation Refunding Bonds in the amount of $5,825,925. The Agency requests $5,825,925 of RPTTF; however, Finance is reclassifying $5,825,925 to other funds.

- Item No. 4 – 2003 Tax Allocation Bonds in the amount of $1,099,000. The Agency requests $1,099,000 of RPTTF; however, Finance is reclassifying $1,099,000 to other funds.

- Item No. 5 – 2011 Tax Allocation Bonds in the amount of $1,490,306. The Agency requests $1,490,306 of RPTTF; however, Finance is reclassifying $1,490,306 to other funds.

- Item No. 6 – Miscellaneous Bond Costs in the amount of $6,500. The Agency requests $6,500 of RPTTF; however, Finance is reclassifying $6,500 to other funds.

- Item No. 12 – Independent Legal Counsel in the amount of $50,000. The Agency requests $50,000 of RPTTF; however Finance is reclassifying $50,000 to other funds.

- Item No. 13 – Administrative Cost Allowance in the amount of $664,663. The Agency requests $1,296,819 of RPTTF. As stated previously, $632,156 is not allowed pursuant to the cap. Therefore, Finance is reclassifying the remaining $664,663 to other funds.

- Item No. 16 – Private Ruling Letter in the amount of $25,000. The Agency requests $25,000 of RPTTF; however, Finance is reclassifying $25,000 to other funds.

- Item No. 17 – Ruling Request Fee in the amount of $18,000. The Agency requests $18,000 of RPTTF; however, Finance is reclassifying $18,000 to other funds.

In addition to the items reclassified above, Finance is reclassifying the following item based on residual RPTTF balances that should be used prior to requesting RPTTF.

Item No. 8 – First Amendment to the Cooperation Agreement and First Amendment to the Predevelopment Funding Agreement in the amount of $12,000,000. The Agency requests $12,000,000 of RPTTF; however, Finance is reclassifying $12,000,000 to prior period residual RPTTF balances. The Santa Clara CAC currently holds prior period residual RPTTF balances totaling $25,151,539. The residual RPTTF balances were withheld due to a temporary restraining order issued by Superior Court of the State of California, County of Sacramento. Item No. 8 was determined to be an enforceable obligation for the ROPS 13-14B period. Consequently, the prior period residual RPTTF balances should be released by the Santa Clara CAC. Therefore, Finance is approving $12,000,000 of prior period residual RPTTF balances and expects the remaining balances to be distributed to the taxing entities.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. 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. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

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	23,489,053
Total RPTTF requested for administrative obligations	1,296,819
Total RPTTF requested for obligations	**$ 24,785,872**
Total RPTTF requested for non-administrative obligations	**23,489,053**
Item reclassified to prior period residual RPTTF	
Item No. 8	(12,000,000)
Total RPTTF approved for non-administartive obligations	**11,489,053**
Total RPTTF requested for administrative obligations	**1,296,819**
Denied Item	
Item No. 13	(632,156)
Total RPTTF approved for administrative obligations pusuant to the Admin Cap	**664,663**
Total RPTTF approved for obligations	**$ 12,153,716**
ROPS III prior period adjustment	(270,689)
Items reclassified to other funds	
Item No. 1	(854,431)
Item No. 2	(2,119,891)
Item No. 3	(5,825,925)
Item No. 4	(1,099,000)
Item No. 5	(1,490,306)
Item No. 6	(6,500)
Item No. 12	(50,000)
Item No. 13	(664,663)
Item No. 16	(25,000)
Item No. 17	(18,000)
	(12,153,716)
Total RPTTF approved for distribution	**0**

Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	2,833,040
Total RPTTF for 13-14B (January through June 2014)	23,489,053
Total RPTTF for fiscal year 2013-14	**26,322,093**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)	789,663
Administrative allowance for 13-14A (July through December 2013)	(125,000)
Allowable for administrative cost for ROPS 13-14B	**664,663**

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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/.

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 Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Tamera Haas, Assistant Director of Finance, City of Santa Clara
Ms. Irene Lui, Controller Treasurer, Santa Clara County
California State Controller's Office