



November 15, 2013

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

Dear Ms. Giovanatto:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Sonoma Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on October 3, 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. 11 – City Loan in the amount of \$417,490. Finance has denied this item on prior ROPS' and this item continues to be denied. The Agency contends that this item is an enforceable obligation since a Cooperation Agreement exists 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 for payment of the lease. The former Redevelopment Agency (RDA) is neither a party to the contract nor responsible for payment of the contract. Even though the former RDA signed a Cooperation 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. Furthermore, 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 Cooperation 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.
- Item No. 28 – Affordable Housing Project in the total amount of \$1,450,000. It is our understanding that no contract has been awarded for this item. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Furthermore, the Agency is requesting to utilize their 2011 bond proceeds. Pursuant to

HSC section 34191.4 (c), successor agencies that have been issued a Finding of Completion (FOC) by Finance will be allowed to use excess 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 of 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, this item is not an enforceable obligation.

- Items No. 50 through 53, 55 through 59, and 61 through 68 –Citywide Projects totaling \$6,986,533 from bond proceeds. Finance has denied these items on prior ROPS' and these items continue to be denied. HSC 34163 (b) prohibits agencies from entering into contracts after June 27, 2011. The contracts provided were signed after June 27, 2011. Pursuant to HSC section 34191.4 (c), successor agencies that have been issued a FOC 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 of 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, these items are not eligible for bond proceeds on the ROPS.

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 county auditor-controller (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, 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 \$677,647 as summarized on the next page:

Approved RPTTF Distribution Amount	
For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	510,262
Total RPTTF requested for administrative obligations	250,000
Total RPTTF requested for obligations	\$ 760,262
Total RPTTF requested for non-administrative obligations	510,262
<u>Denied Item</u>	
Item No. 11	(41,749)
Total RPTTF approved for non-administrative obligations	468,513
Total RPTTF requested for administrative obligations	250,000
Total RPTTF approved for administrative obligations	250,000
Total RPTTF approved for obligations	718,513
ROPS III prior period adjustment	(40,866)
Total RPTTF approved for distribution	\$ 677,647

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/](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

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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. Cathy Lanning, Administrative Services Manager, City of Sonoma
Mr. Randy Osborn, Property Tax Manager, Sonoma County
California State Controller's Office