DEPARTMENT OF FINANCE

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May 16, 2014

Mr. John Haig, Redevelopment Manager
Sonoma County
1440 Guerneville Road
Santa Rosa, CA 95403

Dear Mr. Haig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 9, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Sonoma County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 28, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 9, 2014. 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 April 21, 2014.

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. 75 – Personnel Costs is partially denied in the amount of $149,500. The Agency requests Redevelopment Property Tax Trust Fund (RPTTF) funding in the amount of $200,000 of which $149,500 of personnel costs relates to Item Nos. 99 through 101. Personnel costs for project implementation are enforceable obligations to the extent they are associated with an enforceable obligation. Finance determined Item Nos. 100 and 101 were not enforceable obligations as described below, which was maintained during the Meet and Confer process. Finance initially determined Item No. 99 was not an enforceable obligation, which was reversed during the Meet and Confer process, as discussed below. Therefore, $49,500 of personnel costs associated with Item Nos. 100 and 101 is not an enforceable obligation and not eligible for RPTTF funding.

- Item No. 99 – Roseland Village Environmental Contamination Clean Up in the amount of $1,170,250. This item is composed of $500,000 from RPTTF funding, $584,921 from Reserve Balances, and $85,329 from Other Funds. Finance no longer denies RPTTF funding and Other Funds for this item, but continues to deny Reserves Balances. Finance initially denied this because the property was transferred to the Sonoma County Housing Authority (Authority) as of February 12, 2012. The Agency provided the original notification from the State Water Resources Control Board, which demonstrates the costs associated with the cleanup and remediation activities were an

obligation of the former redevelopment agency (RDA) and continues to be an obligation of the Agency.

The Agency requests to use Reserve Balances available to fund the item; however, Finance's Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated April 8, 2013 did not permit the Agency to retain reserve balances for this project. Finance notes that a $2,090,164 payment was made, but $6,784,163 of the OFA DDR amount due has not been remitted, which is the balance the Agency is requesting to use. Pursuant to HSC section 34179.6 (f), the Agency should remit the remaining amount to the county auditor-controller, plus any interest accumulated on those sums.

Therefore, this item is not eligible for Reserve Balances in the amount of $584,921; however, this item is eligible for RPTTF funding in the amount of $500,000, and Other Funds in the amount of $85,329, totaling $585,329.

- Item Nos. 100 and 101 – Reimbursement Agreements totaling $12,224,927 ($2,264,217 and $9,960,710, respectively). Finance continues to deny these items. Finance has denied these items on prior ROPS and continues to deny them. The Agency requests a total of $2,264,217 for Item No. 100 to utilize Reserve Balances in the amount of $661,041 and RPTTF funding in the amount of $1,603,176 for the Roseland Village Redevelopment Project. For Item No. 101, the Agency requests a total of $9,960,710 to be funded by $2,591,628 from RPTTF funding, $2,216,175 from Bond Proceeds, and $5,152,907 from Reserve Balances for the Highway 12 Phase 2 Stage 2 Project.

  Pursuant to HSC section 34171 (d) (2), agreements, contracts, or arrangements between the county that created the RDA and the former RDA are not enforceable obligations. These items are not considered enforceable obligations as the underlying documents are reimbursement agreements between the Agency and the entity that created it – Sonoma County (County).

  Furthermore, in relation to the bond proceeds identified as a funding source for Item No. 101, the item may be allowed for expenditure in the future pursuant to HSC section 34191.4, which states that any successor agency that has been issued a Finding of Completion (FOC) by Finance may use proceeds derived from bonds issued on or before December 31, 2010, for the purpose for which the bonds were issued. The Agency has not been issued a FOC. Therefore, Item Nos. 100 and 101 totaling $12,224,927 are not enforceable obligations and not eligible for funding.

- Item No. 120 – Housing Entity Administrative Cost Allowance in the amount of $75,000. Finance continues to deny this item. Finance denied this item because pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the RDA elected to not assume the housing functions. The housing entity to the former RDA of the County is the County-formed Housing Authority; the Authority operates under the control of the County and is considered the County under Dissolution Law (ABx1 26 and AB 1484).

  The Agency contends that the County elected not to retain the housing functions, but the Authority, as a separate legal entity from the County, did elect to retain the housing functions pursuant to HSC section 34176 (b) and should therefore be eligible for the

housing entity administrative allowance. However, pursuant to HSC section 34167.10 (a), the definition of "county" includes, but is not limited to, any reporting entity of the county for purposes of its comprehensive annual financial report (CAFR), any component unit of the county, or any entity controlled by the county or for which the county is financially responsible or accountable. HSC section 34167.10 (a) defines "county" for purposes of all of Dissolution Law, which includes HSC section 34171, as amended by AB 471, and HSC section 34176. The Authority is included in the County's CAFR, which identifies the Authority as a component unit of the County.

Although the Authority is a separate legal entity from the County, HSC section 34167.10 (c) states that it shall not be relevant that the entity is formed as a separate legal entity. It should also be noted that HSC section 34167.10 (c) goes on to state that "the provisions of this section are declarative of existing law as the entities described herein are and were intended to be included within the requirements of this part [Part 1.8] and Part 1.85...and any attempt to determine otherwise would thwart the intent of these two parts." Therefore, based on our review, the County, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for $75,000 of housing entity administrative allowance.

In addition, the following adjustment was made per Agency's request:

Item No. 2 – 2008 Springs Tax Allocation Bond in the amount of $1,000. The Agency erroneously overfunded the August 1, 2014 bond payment by $1,000 and requested Finance to reduce the original estimate from $737,000 to $736,000 during the ROPS 14-15A period.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. HSC section 34186 (a) also specifies 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 table on the next page includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is $1,751,116 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		6,181,367
Total RPTTF requested for administrative obligations		250,000
Total RPTTF requested for obligations	**$**	**6,431,367**
Agency requested RPTTF adjustment to non-administrative obligation		
Item No. 2		(1,000)
Total Agency requested RPTTF adjustments	**$**	**(1,000)**
Total RPTTF requested for non-administrative obligations		**6,180,367**
Denied Items		
Item No. 75		(49,500)
Item No. 100		(1,603,176)
Item No. 101		(2,591,628)
Item No. 120		(75,000)
		(4,319,304)
Total RPTTF authorized for non-administrative obligations	**$**	**1,861,063**
Total RPTTF requested for administrative obligations		**250,000**
Total RPTTF authorized for administrative obligations	**$**	**250,000**
Total RPTTF authorized for obligations	**$**	**2,111,063**
ROPS 13-14A prior period adjustment		(359,947)
Total RPTTF approved for distribution	**$**	**1,751,116**

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. During the ROPS 14-15A review, Finance requested financial records to support the cash 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 14-15A review period to properly identify the Agency's cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash balances prior to requesting RPTTF in ROPS 14-15B.

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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. Kathleen Kane, Executive Director, Sonoma County
Mr. Randy Osborn, Property Tax Manager, Sonoma County
California State Controller's Office