DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 17, 2014

Mr. Michael Powers, City Manager
King City
212 South Vanderhurst Avenue
King City, CA 93930

Dear Mr. Powers:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the King City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on October 2, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 14, 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 December 5, 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.

- During the Meet and Confer process, the Agency contended that the $1,000,000 in its possession that Finance determined was available to fund approved enforceable obligations listed in the Agency's July through December 2014 ROPS (ROPS 14-15A) should instead be used to fund Item No. 19 on ROPS 14-15B and the determinations on the items below should be reversed to account for these funds not being available for the ROPS 14-15A period. However, Item No. 19 is not an enforceable obligation; therefore, the $1,000,000 should have been available for the ROPS 14-15A period. Therefore, Finance continues to make the following determinations:
    - Item Nos. 6 through 9 – Various Third Party Obligations totaling $1,489,323 are partially approved. Finance requested support for the amounts claimed; however, the Agency was unable to provide adequate information. To the extent the Agency can provide suitable documentation, such as accounting records or loan payment schedules, to support the requested funding, the Agency may be able to obtain Redevelopment Property Tax Trust Fund (RPTTF) funding on future ROPS:
        - Item No. 6 – Gregory Judgment in the amount of $244,087. The Agency requests $244,087; however, the total outstanding obligation listed in

ROPS 13-14B was $211,058. Additionally, Finance authorized $60,000 in ROPS 13-14B, and the Agency reported actual expenditures of $14,343 for the ROPS 13-14B period.

In ROPS 14-15A, Finance authorized an additional $60,000 for this obligation, and the Agency received sufficient funding for that period. Therefore, the total outstanding obligation allowable in ROPS 14-15B is $136,715 calculated as follows: ROPS 13-14B total outstanding obligation ($211,058), less ROPS 13-14B actual ($14,343), less the ROPS 14-15A authorized amount ($60,000). The excess, $107,372 ($244,087-$136,715) is not eligible for RPTTF funding on this ROPS.

- Item No. 7 – Tavernetti-Anderson Note in the amount of $61,428. The Agency mistakenly retired this item from the ROPS Template, and relisted this obligation as Item No. 18. Finance has returned the item to its original ROPS line item number (Item No. 7).

  During ROPS 13-14B, Finance authorized $44,037 for this item. The Agency reported actual expenditures of $10,527 for this item, leaving an outstanding balance of $33,510 ($44,037-$10,527). Therefore, the Agency's request of $44,037 has been adjusted by $10,527.

- Item No. 8 – Anderson Note in the amount of $63,984. The Agency mistakenly retired this item from the ROPS Template, and relisted this obligation as Item No. 19. Finance has returned the item to its original ROPS line item number (Item No. 8).

  During ROPS 13-14B, Finance authorized $44,456 for this line item. The Agency reported actual expenditures of $10,627, leaving an outstanding balance of $33,829 ($44,456-$10,627). Therefore, Agency's request of $44,456 has been adjusted by $10,627.

- Item No. 9 – Hearne Note in the amount of $1,119,824. The Agency requests $1,119,824, however, the total outstanding obligation listed in ROPS 13-14B was $485,316. Additionally, Finance authorized $424,529 in ROPS 13-14B, and the Agency reported actual expenditures of $101,481 for the ROPS 13-14B period.

  In ROPS 14-15A, Finance authorized an additional $258,091 for this obligation, and the Agency received sufficient funding for that period. Therefore, the total outstanding obligation allowable in ROPS 14-15B is $125,744 calculated as follows: ROPS 13-14B total outstanding obligation ($485,316), less ROPS 13-14B actual ($101,481), less the ROPS 14-15A authorized amount ($258,091). The excess, $994,080 ($1,119,824-125,744) is not eligible for RPTTF funding on this ROPS.

- Item No. 10 – Property Pass-Thru True-Up Payments in the amount of $552,585 is not allowed. Finance approved this amount in its entirety in ROPS 14-15A, and the Agency received sufficient funds for all obligations approved in ROPS 14-15A. Therefore, this item is not eligible for RPTTF funding.

- Item No. 18 – Loan from the City of King (City) for ROPS RPTTF Shortfall in ROPS 14-15A in the amount of $46,521 is not allowed. HSC section 34173 (h) permits the City to grant or loan funds to the Agency for administrative costs and enforceable obligations at its discretion. Our review of available information shows the Agency received sufficient funds for all obligations approved in ROPS 14-15A. The Monterey County Auditor-Controller's office distributed RPTTF in the amount of $405,066 and the Agency had in its possession $1,000,000 in unencumbered funds available for funding approved enforceable obligations listed in the Agency's ROPS 14-15A. Therefore, a loan from the City was not necessary and this item is not eligible for RPTTF funding.

- Item No. 19 – Downtown Addition Housing Project in the amount of $1,000,000. This item was initially denied because insufficient documentation was provided to support the amount claimed. The Agency provided an Affordable Housing Agreement (Agreement), dated June 14, 2011, between the former Redevelopment Agency (RDA) and Smith-Monterey, LLC (Developer). However, this document does not include sufficient information to ascertain the number of affordable housing units that have been developed and occupied in order to calculate the payment due to the Developer.

  During the Meet and Confer process, the Agency contended that this one-time distribution of $1,000,000 to fund affordable housing is being requested because the Developer is now meeting the milestones of the project. Pursuant to Sections 201 and 202 of the Agreement, to the extent the Agency has funding available, the former RDA was to either provide down payment assistance and second trust deed loans to purchasers of up to 15 percent of the for-sale homes or assist one or more affordable multifamily housing projects to be constructed. Furthermore, Section 203 of the Agreement states that the former RDA shall provide the housing assistance only from the former RDA's Low and Moderate Income Housing Fund (LMIHF) and from no other source. However, LMIHF funds are no longer available as the requirement to set aside 20 percent has ended and all funds in the LMIHF should have been distributed to the affecting taxing entities. Therefore, the item is not an enforceable obligation.

In addition, per Finance's letter dated November 14, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2014 period. The amount of RPTTF approved in the table below reflects the prior period adjustment self-reported by the Agency.
HSC section 34186 (a) also specifies prior period adjustments self-reported by successor agencies are subject to review by the county auditor-controller (CAC) and the State Controller. Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of RPTTF approved in the table below only reflects the prior period adjustment self-reported by the Agency.

In addition, Finance noted the following:

- On ROPS 13-14B Prior Period Adjustment worksheet, the Agency's expenditures exceeded Finance's authorization for the following items:

  - Other Funding for Item No. 12, $46,521.

Per HSC section 34177 (a) (3), only those payments listed on ROPS may be made by the Agency from the funds specified on the ROPS. However, these items were determined to be enforceable obligations for the ROPS 14-15B period. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15B period to ensure that authorization is consistent with expenditures for the approved enforceable obligations. As these Other Funds were previously expended, the increase in authorization should not result in increased expenditures for the current ROPS period, but should merely allow the Agency to reconcile actual expenditures to the authorization.

HSC sections 34177 (a) (4) and 34173 (h) provide mechanisms when Agency payments must exceed the amounts authorized by Finance. Please ensure the proper expenditure authority is received from your Oversight Board and Finance prior to making payments on enforceable obligations.

Except for items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 14-15B. The Agency's maximum approved RPTTF distribution for the reporting period is $915,157 as summarized in the Approved RPTTF Distribution Table below:

Approved RPTTF Distribution For the period of January through June 2015		
Total RPTTF requested for non-administrative obligations		3,375,859
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**3,500,859**
Total RPTTF requested for non-administrative obligations		**3,375,859**
Denied Items		
Item No. 6		(107,372)
Item No. 7		(10,527)
Item No. 8		(10,627)
Item No. 9		(994,080)
Item No. 10		(416,490)
Item No. 18		(46,521)
Item No. 19		(1,000,000)
		(2,585,617)
Total RPTTF authorized for non-administrative obligations	**$**	**790,242**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**915,242**
ROPS 13-14B prior period adjustment		(85)
Total RPTTF approved for distribution	**$**	**915,157**

Please refer to the ROPS 14-15B 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 January 1 through June 30, 2015. 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 the 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 agency in the RPTTF.

Pursuant to HSC section 34177 (a) (3), only those payments listed on an approved ROPS may be made by the successor agency from the funds specified in the ROPS. However, if for whatever reason the Agency needs to make payments for approved obligations from another funding source, HSC section 34177 (a) (4) requires the Agency to first obtain oversight board approval.

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
Acting Program Budget Manager

cc: Ms. Cindy Iglesias, Administrative Assistant, King City
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office