DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

December 17, 2014

Ms. Laura Lawrence, Resource Management Agency Services Manager
Monterey County
168 West Alisal Street, 2nd Floor
Salinas, CA 93901

Dear Ms. Lawrence:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated October 31, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Monterey County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 17, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on October 31, 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 November 20, 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. 10 – East Garrison Disposition and Development Agreement (2005 DDA) Project Administration with a total outstanding balance of $6,768,164. Finance initially denied this item as it was our understanding that the Agency is requesting to fund obligations pursuant to a June 28, 2011 agreement, which amended the 2005 DDA. However, as referenced in our October 31, 2014 letter, pursuant to HSC section 34163, the Agency did not have the authority to amend the terms of the 2005 DDA; therefore, the 2011 agreement is not an enforceable obligation.

  Based on further review during the Meet and Confer, the former Redevelopment Agency (RDA) entered into a DDA with the City of San Bernardino and East Garrison Partners I on October 4, 2005. On January 30, 2007, the Residential Funding Company issued a loan to East Garrison Partners totaling $75,000,000 to fund a portion of the project. However, on January 1, 2009, East Garrison Partners defaulted on the loan. As a result, East Garrison Partners assigned the promissory note and deed of trust to the new lender and developer, Union Community Partners on August 7, 2009. On June 28, 2011, the former RDA and Union Community Partners entered into the First Implementation Agreement to the Disposition and Development Agreement (Agreement), under which Union Community Partners assumed the rights and obligations of East Garrison Partners under the 2005 DDA. The Agreement also amended various provisions of the

original DDA. However, as previously stated above, the former RDA was prohibited from taking such action effective June 28, 2011 pursuant to HSC sections 34163 (b) and (c). Notwithstanding the Agreement, Finance no longer denies the Agency's ROPS 14-15B request to expend $96,224 in Reserve Balances and $53,776 in Redevelopment Property Tax Trust Fund (RPTTF) funding under the 2005 DDA. Finance will further review this item on future ROPS and work with the Agency to determine the Agency's actual obligations under the 2005 DDA.

- Item No. 29 – The Agency's claimed administrative costs exceed the allowance by $125,000. HSC section 34171 (b) limits the fiscal year 2014-2015 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater. During the July through December 2014 (ROPS 14-15A) period, the Agency requested and Finance approved $250,000 in administrative cost allowance. However, the Monterey County Auditor-Controller's Office did not distribute any administrative cost allowance for the ROPS 14-15A period because the Agency had sufficient excess prior period adjustment to cover the entire administrative costs requested, thus leaving no balances available for the January through June 2015 period. Therefore, $125,000 of excess administrative cost is not allowed.

  Further, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

In addition, per Finance's letter dated October 31, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

Further, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the obligations listed on the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

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 audit 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.

Except for the 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 $53,776 as summarized in the Approved RPTTF Distribution Table on the following page:

Approved RPTTF Distribution For the period of January through June 2015		
Total RPTTF requested for non-administrative obligations		53,776
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	$	**178,776**
Total RPTTF requested for non-administrative obligations		**53,776**
Total RPTTF authorized for non-administrative obligations	$	**53,776**
Total RPTTF requested for administrative obligations		**125,000**
Denied Item		
Item No. 29		(125,000)
		(125,000)
Total RPTTF authorized for administrative obligations	$	**0**
Total RPTTF authorized for obligations	$	**53,776**
ROPS 13-14B prior period adjustment		
Self-reported ROPS 13-14B prior period adjustment (PPA)		(202,678)
Finance adjustment to ROPS 13-14B PPA		202,678
Total ROPS 13-14B PPA		0
Total RPTTF approved for distribution	$	**53,776**

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 14-15B review, Finance requested financial records to support the cash balances reported by the Agency; however, the Agency was unable to support the amounts reported. The documentation provided did not completely trace and agree to the beginning and ending balances of the cash balance report. As a result, Finance will continue to work with the Agency after the ROPS 14-15B 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 15-16A.

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Shawne Ellerbee, Finance Manager III, Monterey County
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office