



November 10, 2014

Mr. Kevin Riper, Administrative Services/Finance Director
City of Morgan Hill
17575 Peak Avenue
Morgan Hill, CA 95037

Dear Mr. Riper:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Morgan Hill Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to the California Department of Finance (Finance) on September 29, 2014 for the period of January 1 through June 30 2015. Finance has completed its review of your ROPS 14-15B, which may have included obtaining clarification for various items.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 143 – Relocation for opportunity sites in the amount of \$300,000 is not an enforceable obligation. These costs are to provide funding for the relocation of tenants located in the properties which are being sold pursuant to the Long Range Property Management Plan. It is our understanding that contracts for this line item have not yet been awarded. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011. Therefore, this item is not an enforceable obligations and not eligible for Redevelopment Property Tax Trust Funds (RPTTF) in the amount of \$300,000.
- Item No. 150 – Relocation costs in the amount of \$1,000,000 is partially denied. Although total Bond Proceeds requested is \$1,000,000, only \$752,000 is supported by the estimates provided. Therefore, the excess of bond proceeds requested in the amount of \$248,000 is eligible for funding.
- Claimed administrative costs exceed the allowance in the amount of \$101,107. HSC section 34171 (b) limits the fiscal year administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Santa Clara County Auditor-Controller's Office distributed \$125,000 for the July through December 2014 period, thus leaving a balance of \$125,000 available for the January through June 2015 period. Although \$226,107 is claimed for administrative cost, only \$125,000 is available pursuant to the cap. Therefore, \$101,107 of excess administrative cost is not allowed.

In addition, Finance noted the following during our review:

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

- Other Funding – Item No. 71 exceeded the approved amount by \$2,973
- Bond Proceeds – Item No. 94 exceeded the approved amount by \$7,725

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 Bond Proceeds and 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.

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. 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. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's review of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part, Finance is not objecting to the remaining items listed on your ROPS 14-15B. If you disagree with the determination with respect to any items on your ROPS 14-15B, 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 \$6,281,530 as summarized in the Approved RPTTF Distribution Table on the next page:

Approved RPTTF Distribution	
For the period of January through June 2015	
Total RPTTF requested for non-administrative obligations	7,536,910
Total RPTTF requested for administrative obligations	226,107
Total RPTTF requested for obligations on ROPS	\$ 7,763,017
Total RPTTF requested for non-administrative obligations	7,536,910
<u>Denied Items</u>	
Item No. 143	(300,000)
Total RPTTF authorized for non-administrative obligations	\$ 7,236,910
Total RPTTF requested for administrative obligations	226,107
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(101,107)
Total RPTTF authorized for administrative obligations	\$ 125,000
Total RPTTF authorized for obligations	\$ 7,361,910
ROPS 13-14B prior period adjustment	(1,080,380)
Total RPTTF approved for distribution	\$ 6,281,530

Administrative Cost Cap Calculation	
Total RPTTF for 14-15A (July through December 2014)	312,402
Total RPTTF for 14-15B (January through June 2015)	7,236,910
Total RPTTF for fiscal year 2014-2015	7,549,312
Allowable administrative cost for fiscal year 2014-15 (Greater of 3% or \$250,000)	250,000
Administrative allowance for 14-15A (July through December 2014)	125,000
Allowable RPTTF distribution for administrative cost for ROPS 14-15B	125,000
Total RPTTF administrative obligations after Finance adjustments	226,107
Administrative costs in excess of the cap	\$ (101,107)

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. The Agency was able to support the amounts reported except the beginning balance of the Other Funds account. Finance will continue to work with the Agency after the ROPS 14-15B review period to resolve any remaining issues as described above. If it is determined the Agency possesses additional 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>

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, 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.

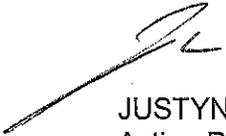
The amount available from the RPTTF is the same as the amount of property tax increment that was available prior to the enactment of ABx1 26 and AB 1484. This amount is not and never was an unlimited funding source. Therefore, as a practical matter, the ability to fund the items on the ROPS with property 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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Monica C. Delgado, Budget Manager, City of Morgan Hill
Ms. Irene Lui, Controller Treasurer, Santa Clara County
California State Controller's Office