



December 17, 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

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 10, 2014. 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 Finance on September 29, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 10, 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 19, 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. 143 – Relocation for opportunity sites in the amount of \$300,000. Finance continues to deny this item. 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 (LRPMP). During the Meet and Confer, the Agency contends that the costs are necessary in order to comply with statutory requirements and to implement its approved LRPMP. However, pursuant to HSC section 34164 (m), the Agency is not authorized to provide or commit to provide relocation assistance except in furtherance of an enforceable obligation. Moreover, pursuant to HSC section 34163 (b), the Agency may not enter into contracts with, incur obligations, or make commitments to any entity, for any reason. Further, HSC section 37177.3 states that agencies shall lack the authority to, and shall not, create new enforceable obligations. As such, this item is not an enforceable obligation and is not eligible for funding from the Redevelopment Property Tax Trust Fund (RPTTF).
- Item No. 150 – Relocation costs in the amount of \$1,000,000 using bond proceeds. This item constitutes excess bond obligations pursuant to HSC section 34191.4 (c) and is now approved for funding. A Finding of Completion was issued on June 4, 2013 and, the Agency may now utilize excess proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants. We note that

the requested funds are derived from bonds issued in 2008. During the meet and confer, the Agency provided additional information to support the estimated bond proceeds requested.

- 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, per Finance's letter dated November 10, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

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. 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 following 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>

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. Monica C. Delgado, Budget Manager, City of Morgan Hill
Ms. Emily Harrison, Finance Agency Director, Santa Clara County
California State Controller's Office