



December 17, 2014

Ms. Kate Goldfine, Administrative Services Officer  
City of Santa Rosa  
90 Santa Rosa Avenue  
Santa Rosa, CA 95404

Dear Ms. Goldfine:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 07, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Rosa Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 25, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 07, 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 18, 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 Nos. 13, 17, 22, and 33 – Loans and agreements between the City of Santa Rosa (City) and the former City of Santa Rosa Redevelopment Agency (RDA) totaling \$6,914,311. Finance continues to deny these items. During the meet and confer, the Agency did not provide any additional documentation to support these items are enforceable obligations. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless executed within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. The loans and agreements were executed after the first two years of the former RDA's creation and are not associated with the issuance of debt. We note that pursuant to HSC section 34191.4 (b), these loan agreements between the former redevelopment agency and sponsoring entity may be enforceable obligations if the following requirements are met: (1) The Agency has received a Finding of Completion; and (2) The Agency's oversight board approves the loan as an enforceable obligation by finding the loan was for legitimate redevelopment purposes. However, the Agency has not received a Finding of Completion. Therefore, these items are not enforceable obligations and are not eligible for funding on the ROPS.

- Item No. 81 – Sonoma Marin Area Rail Transit Trail Funding Agreement (Funding Agreement) in the amount of \$487,460 has been reclassified from Reserve Balances to Bond Proceeds funding. During the meet and confer, the Agency contends that Finance does not have the authority to reclassify this item to bond proceeds. Based on our review and as further discussed below, Finance continues to reclassify this item:

Under Section (2) (B) of the Funding Agreement, the Agency's obligation may be funded from any available funds, including any bonds issued by the Agency. The Agency contends that the Agency's remaining bond proceeds are encumbered by various other projects and shall be expended after the receipt of a Finding of Completion (FOC). Per HSC section 34191.4 (c) (2) (A), after the receipt of an FOC, bond proceeds in excess of the amounts needed to satisfy enforceable obligations on ROPS shall thereafter be expended in a manner consistent with the original bond covenants. The Agency has yet to receive an FOC. As such, the Agency cannot consider any of the funds excess bond proceeds or encumber them on non-enforceable obligations.

The Reserve Balances the Agency requested were derived from RPTTF. However, pursuant to HSC section 34177 (I) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency claims that pursuant to the Funding Agreement, tax increment was pledged as the funding source for this project. However, while Section 5 of the Funding Agreement states that the Funding Agreement constitutes an indebtedness of the Agency and a pledge of tax increment, it does not require payment from tax increment. In addition, on the January through June 2013 ROPS (ROPS III), the Agency requested the use of bond proceeds to fund this item.

The project is an eligible use of the bond proceeds. Pursuant to the 2002 and 2005 series bond indentures, the bonds shall be designated to the Southwest Redevelopment Project area. Item 81 is a project within the Southwest Redevelopment Project area. The Agency did not claim or provide any documentation to support that this project is not a permissible use of bond proceeds.

Finally, pursuant to Finance's Low and Moderate Income Housing Fund (LMIHF) and Other Funds and Account (OFA) Due Diligence Review (DDR) letters dated December 15, 2012 and May 24, 2013, respectively, the Agency has outstanding balances due totaling \$5,556,782 and \$6,919,377, respectively. It is unclear if the Reserve Balances requested for this item are part of the amounts the Agency is required to remit under the DDR's.

- Item No. 91 – Housing Authority Administrative Costs in the amount of \$75,000 and with a total outstanding obligation of \$600,000. 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 redevelopment agency (RDA) elected to not assume the housing functions. Because the housing entity to the former RDA of the City of Santa Rosa (City) is the City-formed Housing Authority (Authority), and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law (ABx1 26 and AB 1484).

The Agency contends that the City elected not to retain the housing functions, but the Authority, as a separate legal entity from the City, did 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 city includes, but is not limited to, any reporting entity of the city for purposes of its comprehensive annual financial report (CAFR), any component unit of the city, or any entity controlled by the city or for which the city is financially responsible or accountable. HSC section 34167.10 (a) defines city 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 City's CAFR, which identifies the Authority as a component unit of the City and states that the City is financially accountable for the component units.

Although the Authority is a separate legal entity from the City, 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 City, 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, per Finance's letter dated November 07, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

- Item No. 23 – Coddington Owner Participation Agreement requested and authorized Reserve Balances funding has been adjusted from \$0 to \$1,500,000. In ROPS 14-15A, the Agency was authorized for Reserve Balances in the amount of the remaining total outstanding obligation of \$1,500,000. However, due to unforeseen delays, the Agency may have to make the final payment after the ROPS 14-15A period. Consequently, the Agency requested authorization for Reserve Balances expenditures in the ROPS 14-15B period. Finance determined Item No. 23 to be an enforceable obligation. Therefore, Finance increases the Agency's ROPS 14-15B authorization from \$0 to \$1,500,000 in Reserve Balances.
- Item Nos. 72, 73, 76, 77, and 80 – Funding Agreements between the City and the former RDA totaling \$1,553,109 funded from Bond Proceeds are not enforceable obligations and not eligible for funding on ROPS. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. The agreements were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. Therefore, these items are not enforceable obligations and are not eligible for Bond Proceeds funding on ROPS.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. During the OFA DDR, the

Agency was allowed to retain Reserve Balances authorized for expenditure during the ROPS III and ROPS 13-14A periods. We note that these amounts retained during the OFA DDR are not part of the balances that should be available for remittance to the CAC. Included in both retention amounts was \$2,200,000 in Reserve Balances for ROPS Item No. 23 – Coddingtontown Owner Participation Agreement. Consequently, the Agency was able to retain a total of \$4,400,000 for a ROPS item with a total obligation of \$2,200,000. As such, \$2,200,000 of Reserve Balances are unencumbered and should be available to fund approved ROPS 14-15B obligations.

Therefore, the funding source for the following items, which were determined to be enforceable obligations for the ROPS 14-15B period are being reclassified to Reserve Balances totaling \$2,200,000 in the amounts specified below:

Item No.	Project Name / Debt Obligation	Requested RPTTF	Amount Reclassified to Reserve Balances
1	2002A Bond Debt Service	\$ 347,396	\$ 135,108
2	2005A Bond Debt Service	436,700	436,700
3	2005B Bond Debt Service	87,889	87,889
4	2002 Bond Fee	2,860	2,860
5	2005 Bond Fee	4,850	4,850
7	2005A Certificate of Participation	70,925	70,925
8	2005B Certificate of Participation	709,018	709,018
9	2005 Certificate of Participation Bond Fee	4,850	4,850
10	Revolving Line of Credit	147,918	147,918
11	Revolving Line of Credit	405,248	405,248
40	Administrative Activities	125,000	125,000
90	Litigation Related Expenses	50,000	50,000
92	Litigation Related Expenses from ROPS 13-14B	19,634	19,634
	<b>Total</b>	<b>\$ 2,412,288</b>	<b>\$ 2,200,000</b>

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 or items that have been reclassified, 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 \$212,288 as summarized in the Approved RPTTF Distribution table on the following page:

<b>Approved RPTTF Distribution</b>	
<b>For the period of January through June 2015</b>	
Total RPTTF requested for non-administrative obligations	3,392,577
Total RPTTF requested for administrative obligations	200,000
<b>Total RPTTF requested for obligations on ROPS</b>	<b>\$ 3,592,577</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>3,392,577</b>
<u>Denied Items</u>	
Item No. 13	(480,649)
Item No. 17	(464,242)
Item No. 22	(90,768)
Item No. 33	(69,630)
	<u>(1,105,289)</u>
<b>Total RPTTF for non-administrative obligations</b>	<b>2,287,288</b>
<u>Cash Balances - Items reclassified to Reserve Balances</u>	
Item No. 1	(135,108)
Item No. 2	(436,700)
Item No. 3	(87,889)
Item No. 4	(2,860)
Item No. 5	(4,850)
Item No. 7	(70,925)
Item No. 8	(709,018)
Item No. 9	(4,850)
Item No. 10	(147,918)
Item No. 11	(405,248)
Item No. 90	(50,000)
Item No. 92	(19,634)
	<u>(2,075,000)</u>
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 212,288</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>200,000</b>
<u>Denied Item</u>	
Item No. 91	(75,000)
<b>Total RPTTF for administrative obligations</b>	<b>125,000</b>
<u>Cash Balances - Item reclassified to Reserve Balances</u>	
Item No. 40	(125,000)
<b>Total RPTTF authorized for administrative obligations</b>	<b>0</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 212,288</b>
ROPS 13-14B prior period adjustment	0
<b>Total RPTTF approved for distribution</b>	<b>\$ 212,288</b>

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, Finance was unable to fully 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 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. Cheryl Reynolds, Accountant, City of Santa Rosa  
Mr. Randy Osborn, Property Tax Manager, County of Sonoma  
California State Controller's Office