

December 17, 2014

Ms. Kathleen H. Kane, Executive Director
Sonoma County
1440 Guerneville Road
Santa Rosa, CA 95403

Dear Ms. Kane:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 4, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Sonoma County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15B) to Finance on September 23, 2014, for the period of January through June 2015. Finance issued a ROPS determination letter on November 4, 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 12, 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. 75 – Personnel Costs in the amount of \$200,000 is partially denied. The Agency requests Redevelopment Property Tax Trust Fund (RPTTF) funding in the amount of \$200,000 of which \$10,000 of personnel costs relates to Item Nos. 100 and 101. Finance continues to partially deny this item. Personnel costs for project implementation are enforceable obligations to the extent they are associated with an enforceable obligation. Finance maintains that Item Nos. 100 and 101 are not enforceable obligations as further discussed in the following page. Therefore, \$10,000 of personnel costs associated with Item Nos. 100 and 101 are not enforceable obligations and not eligible for RPTTF funding.
- Item No. 99 – Roseland Village Environmental Contamination Clean Up in the amount of \$1,122,500 is partially denied. The Agency requests \$561,250 from RPTTF funding and \$561,250 from Reserve Balances. Finance continues to deny the request to use unremitted Reserves Balances resulting from Finance's review of the Agency's All Other Funds and Accounts (OFA) Due Diligence Review (DDR). The Agency was not permitted to retain Reserve Balances for this project through the DDR process. Therefore, this item is not eligible for Reserve Balances in the amount of \$561,250; however, this item is eligible for RPTTF funding in the amount of \$561,250.

During the Meet and Confer process, the Agency asserts that there are sufficient balances available after the OFA DDR payment was made to cover these expenditures. However, Finance notes that although a \$2,090,164 OFA DDR payment was made, \$6,784,163 remains outstanding. Furthermore, as stated above, the Agency was not permitted to retain Reserve Balances for this project through the DDR process.

Pursuant to HSC section 34179.6 (f), the Agency should remit the remaining amount to the County Auditor-Controller (CAC), plus any interest accumulated on those sums.

- Item Nos. 100 and 101 – Reimbursement Agreements totaling \$12,332,109 (\$2,371,396 and \$9,960,713, respectively) is denied. Finance has denied these items on prior ROPS and continues to deny them. For Item No. 100, the Agency requests \$768,220 from Reserve Balances and \$1,603,176 from RPTTF for the Roseland Village Redevelopment Project. For Item No. 101, the Agency requests \$2,271,625 from RPTTF funding, \$2,216,175 from Bond Proceeds, and \$5,472,913 from Reserve Balances for the Highway 12 Phase 2 Stage 2 Project.

During the Meet and Confer process, the Agency continued to object to Finance's determination; however, no new information was provided. Pursuant to HSC section 34171 (d) (2), agreements, contracts, or arrangements between the county that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations. These items are not considered enforceable obligations as the underlying documents are reimbursement agreements between the Agency and the entity that created it – Sonoma County (County). Therefore, these items are not eligible for funding on the ROPS.

However, Item No. 101 may be eligible for bond proceeds in the future pursuant to HSC section 34191.4, which states that any successor agency that has been issued a Finding of Completion (FOC) by Finance may use proceeds derived from bonds issued on or before December 31, 2010, for the purpose for which the bonds were issued. The Agency has not been issued a FOC, and therefore, the use of bond proceeds is not allowed at this time.

- Item No. 120 – Housing Entity Administrative Cost Allowance in the amount of \$150,000. Finance continues to deny this item. 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 RDA elected to not assume the housing functions. The housing entity to the former RDA of the County is the County-formed Housing Authority (Authority); the Authority operates under the control of the County and is considered the County under Dissolution Law (ABx1 26 and AB 1484).

During the Meet and Confer process, the Agency continued to contend that the County elected not to retain the housing functions, but the Authority, as a separate legal entity from the County, did elect to 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 "county" includes, but is not limited to, any reporting entity of the county for purposes of its comprehensive annual financial report (CAFR), any component unit of the county, or any entity controlled by the county or for which the county is financially responsible or accountable. HSC section 34167.10 (a) defines "county" 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 County's CAFR, which identifies the Authority as a component unit of the County.

Although the Authority is a separate legal entity from the County, 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 County, by way of the Authority, elected to retain the housing functions pursuant to HSC section 34176 (a) and is not eligible for \$150,000 of housing entity administrative allowance.

In addition, per Finance's letter dated November 4, 2014, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. 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 provided financial records that displayed available Other Funds totaling \$73,807.

Therefore, with the Agency's concurrence, the funding source for the following item has been reclassified to Other Funds and in the amount specified below:

- Item No. 107 – Legal Services in the amount of \$73,807. The Agency requests \$220,000 of RPTTF; however, Finance is reclassifying \$73,807 to Other Funds. This item is an enforceable obligation for the ROPS 14-15B period. However, the obligation does not require payment from property tax revenues and the Agency has \$73,807 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$146,193 and the use of Other Funds in the amount of \$73,807, totaling \$220,000.

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 audit by the 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 items denied in whole or in part or the item that has 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 \$996,109 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	5,518,976
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations on ROPS	\$ 5,518,976
Total RPTTF requested for non-administrative obligations	5,518,976
<u>Denied Items</u>	
Item No. 75	(10,000)
Item No. 100	(1,603,176)
Item No. 101	(2,271,625)
Item No. 120	(150,000)
	<u>(4,034,801)</u>
Total RPTTF for non-administrative obligations	1,484,175
<u>Cash Balances - Item reclassified to Other Funds</u>	
Item No. 107	(73,807)
Total RPTTF authorized for non-administrative obligations	\$ 1,410,368
Total RPTTF requested for administrative obligations	0
Total RPTTF authorized for administrative obligations	0
Total RPTTF authorized for obligations	\$ 1,410,368
ROPS 13-14B prior period adjustment	(414,259)
Total RPTTF approved for distribution	\$ 996,109

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 beginning balances for Reserve Balances, Other Funds, and RPTTF could not be supported by the Agency's financial records. 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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Acting Program Budget Manager

cc: Ms. Dawn Chandler, Accountant, Sonoma County
Mr. Randy Osborn, Property Tax Manager, County of Sonoma
California State Controller's Office