DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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April 10, 2015

Mr. Michael Powers, City Manager
City of King
212 South Vanderhurst Avenue
King City, CA 93930

Dear Mr. Powers:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of King Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on March 2, 2015 for the period of July 1, 2015 through December 31, 2015. Finance has completed its review of your ROPS 15-16A, 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. 9 – Third-Party Loan in the amount of $721,697 is partially approved. The Agency provided financial records displaying an outstanding balance of $438,961 as of June 30, 2014. Finance approved $125,744 in ROPS 14-15B and the Agency received sufficient funds for all non-administrative obligations for the period. Therefore, this item is eligible for $313,217 ($438,961 - $125,744) in Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

- Item No. 19 – Downtown Addition Housing Project in the amount of $1,000,000. Finance continues to deny this item. This item was initially denied because insufficient documentation was provided to support the amount claimed. The Agency provided an Affordable Housing Agreement (Agreement), dated June 14, 2011, between the former Redevelopment Agency (RDA) and Smith-Monterey, LLC (Developer). However, this document does not include sufficient information to ascertain the number of affordable housing units that have been developed and occupied in order to calculate the payment due to the Developer.

  During the ROPS 14-15B Meet and Confer process, the Agency contended that this one-time distribution of $1,000,000 to fund affordable housing is being requested because the Developer is now meeting the milestones of the project. Pursuant to Sections 201 and 202 of the Agreement, to the extent the Agency has funding available, the former RDA was to either provide down payment assistance and second trust deed loans to purchasers of up to 15 percent of the for-sale homes or assist one or more affordable multifamily housing projects to be constructed. Furthermore, Section 203 of

the Agreement states that the former RDA shall provide the housing assistance only from the former RDA's Low and Moderate Income Housing Fund (LMIHF) and from no other source. However, LMIHF funds are no longer available as the requirement to set aside 20 percent has ended and all funds in the LMIHF should have been distributed to the affecting taxing entities. Therefore, the item is not an enforceable obligation.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 15-16A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2014 period. 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 15-16A. If you disagree with the determination with respect to any items on your ROPS 15-16A, 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 $990,889 as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution For the period of July through December 2015		
Total RPTTF requested for non-administrative obligations		2,352,112
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations on ROPS	**$**	**2,477,112**
Total RPTTF requested for non-administrative obligations		**2,352,112**
Denied Items		
Item No. 9		(408,480)
Item No. 19		(1,000,000)
		(1,408,480)
Total RPTTF authorized for non-administrative obligations	**$**	**943,632**
Total RPTTF authorized for administrative obligations	**$**	**125,000**
Total RPTTF authorized for obligations	**$**	**1,068,632**
ROPS 14-15A prior period adjustment		(77,743)
Total RPTTF approved for distribution	**$**	**990,889**

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 15-16A review, Finance requested financial records to support the cash balances reported by the Agency. The Agency provided accounting records reflecting a negative balance; however, this is inconsistent with the cash balances that should be held by the Agency based upon RPTTF received. As a result, Finance will continue to work with the Agency after the ROPS 15-16A

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 15-16B.

Please refer to the ROPS 15-16A 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 July 1 through December 31, 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 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 Kylie Oltmann, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Program Budget Manager

cc: Ms. Cindy Iglesias, Administrative Assistant, City of King
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office