



April 2, 2015

Ms. Tina Rodriguez, Successor Agency Administrator
City of Santa Monica
1901 Main Street, Suite B
Santa Monica, CA 90405

Dear Ms. Rodriguez:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Monica Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16A) to the California Department of Finance (Finance) on February 27, 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 Nos. 17 and 18 – 2003 Promissory Notes A and B between the former Santa Monica Redevelopment Agency (RDA) and the Parking Authority of the City of Santa Monica (Authority) with a total outstanding remaining balance of \$33,961,323 are not enforceable obligations of the Agency. Pursuant to HSC section 34191.4 (b), loan agreements between the former RDA and the Authority, a component unit of the City, may be placed on the ROPS 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.

The Agency received a Finding of Completion on January 16, 2015. However, OB Resolution No. 26, approving the re-establishment of a loan for six parking structures was denied in our letter dated April 2, 2015. HSC section 34171 (d) (1) (B) defines a "loan" as money borrowed by the Agency for a lawful purpose, to the extent they are legally required to be repaid pursuant to a required payment schedule or other mandatory loan terms. Promissory Notes A and B do not meet this definition as no money was borrowed by the Agency. As such, these items are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

In addition, Finance reviewed the Promissory Notes and other related documents to determine whether Item Nos. 17 and 18 could be deemed enforceable under HSC section 34171 (d) (2). It is our understanding; the Sale and Performance Agreement dated January 2003 between the Authority, City of Santa Monica (City) and

the RDA was amended and restated in June 2003 (Amended Agreement). The Amended Agreement obligates the Authority to sell six parking structures to the former RDA for \$60,000,000. The Authority executed Promissory Notes A (Item No. 17) in the amount of \$38,930,000 and B (Item No. 18) in the amount of \$21,070,000 on December 1, 2004 as part of the sale for the six parking structures.

It is also our understanding; some or all of the parking structures are subject to a lease agreement dated May 1, 2002, between the Authority and the City. The lease agreement was entered in connection with the issuance of the 2002 lease revenue refunding bonds, where lease payments made by the City were pledged to pay and secure the Authority's bonds issued in April 2002.

Further, the Authority assigned its rights to Promissory Note A to the City on December 1, 2004. In reliance upon the Promissory Note A assignment, the City's Public Financing Authority issued 2004 lease revenue bonds to finance the construction of the City's Civic Center Parking Garage and related improvements. The Authority and the City entered into a ground lease agreement on December 1, 2004 where the City leases the parking structures. The repayment of the bonds are payable from the City lease payments.

Pursuant to HSC section 34171 (d) (2), agreements between the former RDA and the city that created the RDA are not enforceable obligations unless issued within the first two years of the RDA's existence, or if the agreements were entered into at the time of issuance of indebtedness obligations and solely for the purpose of securing or repaying those indebtedness obligations. The Amended Agreement was not entered into within the first two years of the RDA's existence. In addition, the Amended Agreement to purchase the six parking structures was entered into in 2003, approximately one year after the 2002 issuance of the Authority debt and approximately one year before the 2004 issuance of the Public Financing Authority debt. In addition, it does not appear the Amended Agreement was entered into solely for the purpose of securing or repaying those indebtedness obligations. Therefore, Item Nos. 17 and 18 do not qualify as an enforceable obligation in accordance with HSC section 34171 (d) (2).

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 \$49,022.

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. 11 –Collective Bargaining Units in the amount of \$156,200. The Agency requests \$156,200 of RPTTF; however, Finance is reclassifying \$49,022 to Other Funds. This item is an enforceable obligation for the ROPS 15-16A period. However, the obligation does not require payment from property tax revenues and the Agency has \$49,022 in available Other Funds. Therefore, Finance is approving RPTTF in the amount of \$107,178 and the use of Other Funds in the amount of \$49,022, totaling \$156,200.

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. 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 item denied in whole or in part or for the item that has been reclassified, 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 \$18,122,349 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	25,835,219
Total RPTTF requested for administrative obligations	761,644
Total RPTTF requested for obligations on ROPS	\$ 26,596,863
Total RPTTF requested for non-administrative obligations	25,835,219
<u>Denied Item</u>	
Item No. 17	(7,996,104)
Item No. 18	0
	\$ 17,839,115
<u>Cash Balances - Item reclassified to Other Funds</u>	
Item No. 11	(49,022)
Total RPTTF authorized for non-administrative obligations	\$ 17,790,093
Total RPTTF requested for administrative obligations	761,644
Administrative costs in excess of the cap (see Admin Cost Cap table below)	(226,471)
Total RPTTF authorized for administrative obligations	\$ 535,173
Total RPTTF authorized for obligations	\$ 18,325,266
ROPS 14-15A prior period adjustment	(202,917)
Total RPTTF approved for distribution	\$ 18,122,349

Administrative Cost Cap Calculation	
Total RPTTF for non-administrative obligations	17,839,115
Percent allowed pursuant to HSC section 34171 (b)	3%
Total RPTTF allowable for administrative obligations	535,173
Total RPTTF administrative obligations after Finance adjustments	761,644
Administrative costs in excess of the cap	\$ (226,471)

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 was able to support the amounts reported except for the starting balance as reported on the Cash Balance Form. Therefore, Finance has reclassified the available cash balances of \$49,022 that were supported by the Agency's records. Finance will continue to work with the Agency after the ROPS 15-16A 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 15-16B.

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.

Ms. Tina Rodriguez
April 2, 2015
Page 5

Please direct inquiries to Kylie Oltmann, Supervisor or Veronica Green, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: on the next page
cc: Ms. Barbara Collins, Housing Manager, City of Santa Monica
Ms. Kristina Burns, Manager, Department of Auditor-Controller, Los Angeles County
California State Controller's Office