

December 17, 2015

Ms. Laura Lawrence, RMA Services Manager
Monterey County
168 West Alisal Street, 2nd Floor
Salinas, CA 93901

Dear Ms. Lawrence:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 18, 2015. Pursuant to Health and Safety Code (HSC) section 34177 (m), the Monterey County Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 15-16B) to Finance on October 5, 2015, for the period of January 1 through June 30, 2016. Finance issued a ROPS determination letter on November 18, 2015. Subsequently, the Agency requested a Meet and Confer session on one or more of the determinations made by Finance. The Meet and Confer session was held on November 30, 2015.

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 determinations being disputed.

- Item No. 8 – Disposition and Development Agreement (DDA) and the First Implementation Agreement to the DDA for the East Garrison Project totaling \$11,224,351. Finance continues to deny this item at this time.

Our review of the DDA indicates it is still a valid agreement. Under the DDA, the default by the original developer did not automatically terminate the agreement with the former redevelopment agency (RDA). Instead, the default resulted in a period for the developer or lender to cure the default. Under the DDA the default by the original developer on both the loan and obligations owed under the DDA allowed the lender and now the new developer to take over the rights and obligations of the original developer through written agreement between the new developer and the RDA. As a result, there still exists the DDA (absent termination by the RDA) under which the RDA cannot unreasonably withhold its consent to assign to the new developer.

However, in regard to the June 28, 2011 agreement, which attempted to assign the DDA to the new developer and amend certain provisions of the DDA, HSC 34163(c) prohibited the RDA from amending or modifying existing agreements with any entity after June 27, 2011. As a result, the RDA did not have the authority to take this action and the June 28, 2011 agreement was invalid as the amendment and assignment were

improper. However, because the DDA has not been terminated the SA still has the obligation to not unreasonably withhold its consent to the assignment of the DDA to the new developer. As a result, although the DDA has not been properly assigned yet, it can be now. However, any amendments to the 2005 DDA would have to meet the requirements of HSC 34181(e) to increase net revenue and decrease liabilities.

When and if the DDA is properly assigned to the new developer, Finance will review this item to ensure amounts are owed during that ROPS period. To the extent the Agency and developer wish to amend the DDA, such amendments must meet Health and Safety Code section 34181, subdivision (e)."

- Item No. 10 – Disposition and Development Agreement (DDA) and the First Implementation Agreement to the DDA for the East Garrison Project totaling \$6,768,164. The Agency is claiming administrative costs for the DDA in the amount of \$150,000 for ROPS 15-16B under Section 205 (1) of the DDA and DDA Attachment 4. However, these sections do not require the Agency to expend \$300,000 annually for specific project costs. In fact, the administrative costs referred to in these sections refer to costs of administering the Redevelopment Project Area as a whole. Thus, under this section the Agency is only entitled to actual annual costs associated with administering the Redevelopment Project Area. Under Dissolution Law, this cost is capped under the Administrative Cost Allowance. Thus, under the 2005 DDA the Agency is not entitled to \$150,000 each ROPS period in addition to the allowed ACA distribution.

In addition, per Finance's letter dated November 18, 2015, we continue to make the following determinations not contested by the Agency during the Meet and Confer:

The amount of RPTTF approved in the table on the next page includes an excess prior period adjustment of \$53,775. The current approved RPTTF is insufficient to allow for the prior period adjustments of \$53,775 during this ROPS period. Pursuant to HSC section 34177 (I) (1) (E), the Agency is required to use all available funding sources to pay enforceable obligations. Therefore, the Agency should apply the remaining funds prior to requesting RPTTF on future ROPS.

Pursuant to HSC section 34186 (a) (1), the Agency was required to report on the ROPS 15-16B form the estimated obligations versus actual payments (prior period adjustment) associated with the January through June 2015 period (ROPS 14-15B). HSC section 34186 (a) (1) also specifies the prior period adjustment self-reported by the Agency is subject to review by the county auditor-controller (CAC). Proposed CAC adjustments were not received in time for inclusion in this letter; therefore, the amount of Redevelopment Property Tax Trust (RPTTF) approved in the table on the next page only reflects 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 15-16B. The Agency's maximum approved RPTTF distribution for the reporting period is zero as summarized in the Approved RPTTF Distribution table below:

Approved RPTTF Distribution	
For the period of January through June 2016	
Total RPTTF requested for non-administrative obligations	408,490
Total RPTTF requested for administrative obligations	0
Total RPTTF requested for obligations on ROPS 15-16B	\$ 408,490
Total RPTTF requested for non-administrative obligations	408,490
<u>Denied Item</u>	
Item No. 8	(408,490)
Total RPTTF authorized for non-administrative obligations	\$ 0
Total RPTTF authorized for administrative obligations	\$ 0
Total RPTTF authorized for obligations	\$ 0
ROPS 14-15B prior period adjustment	(53,775)
Excess PPA	53,775
Total RPTTF approved for distribution	\$ 0

On the ROPS 15-16B form, the Agency reported cash balances and activity for the period January 1 through December 31, 2015. Finance will perform a review of the Agency's self-reported cash balances on an ongoing basis. Please be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved obligations, HSC section 34177 (l) (1) (E) requires these balances be used prior to requesting RPTTF.

Please refer to the ROPS 15-16B schedule used to calculate the total RPTTF approved for distribution:

<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, 2016. This determination only applies to items when 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 ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items 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 available prior to the enactment of the redevelopment dissolution statutes. 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.

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Please direct inquiries to Evelyn Sues, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-3274.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Ms. Shawne Ellerbee, Finance Manager III, Monterey County
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County