



May 30, 2012

Kevin Riper, Finance Director/Administrative Services Director
City of Morgan Hill
17575 Peak Avenue
Morgan Hill, CA 95037

Dear Mr. Riper:

Subject: Recognized Obligation Payment Schedule Approval Letter

Pursuant to Health and Safety Code (HSC) section 34177 (I) (2) (C), the City of Morgan Hill Successor Agency submitted Recognized Obligation Payment Schedules (ROPS) to the California Department of Finance (Finance) on May 1, 2012 for period of the January to June 2012 and May 14, 2012 for the period of July to December 2012. Finance is assuming appropriate oversight board approval. Finance has completed its review of your ROPS, which may have included obtaining clarification for various items.

January through June 2012 ROPS

In Finance's letter dated May 14, 2012, we questioned the following items:

- 2008 Tax Allocation Bonds - \$19.3 million in unencumbered or unexpended bond proceeds. There are no contracts in place for these bond proceeds. Section 34177 (i) states "bond proceeds shall be used for the purposes for which bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds." It is not the intent of ABx1 26 to allow successor agencies to enter into new contracts, unless those contracts are specifically required pursuant to the terms of another pre-existing contract that meets the requirements of ABx1 26, or are specifically required by bond indentures.
- Page 2, line items 6 through 11, 22 through 24, and 27 - Various contracts totaling \$2.1 million. HSC section 34163 (b) prohibits the Agency from entering into a contract with any entity after June 27, 2011. The contracts for these line items were executed after June 27, 2011.
- Administrative costs claimed exceed allowance by \$786,054. HSC section 34171 (b) limits administrative expenses to five percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Five percent of the property tax allocated is \$388,242. Therefore, \$786,054 of the claimed \$1,174, 296 is not an EO. The following items were considered administrative expenses:
 - Page 2, item 29
 - Page 3, Items 1 - 11

After further review of additional documents, we are no longer questioning line item 8 on page 1 – Madrone Downpayment Assistance Agreement in the amount of \$1.1 million. However, HSC section 34177 (I) (1) (E) states RPTTF should be used only to the extent no other funding

source is available. The agreement did not commit or otherwise pledge RPTTF for the obligation, therefore this amount is approved from other funds of the agency.

July through December 2012 ROPS

HSC section 34171 (d) lists enforceable obligations characteristics. Based on a sample of items reviewed and application of the law, the following do not qualify as EOs:

- 2008 Tax Allocation Bonds - \$19.3 million in unencumbered or unexpended bond proceeds. There are no contracts in place for these bond proceeds. Section 34177 (i) states "bond proceeds shall be used for the purposes for which bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds." It is not the intent of ABx1 26 to allow successor agencies to enter into new contracts, unless those contracts are specifically required pursuant to the terms of another pre-existing contract that meets the requirements of ABx1 26, or are specifically required by bond indentures.
- Administrative costs claimed exceed allowance by \$42,052. HSC section 34171 (b) limits administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Three percent of the property tax allocated is \$162,920. Therefore, \$42,052 of the claimed \$292,052 is not an EO. The following items were considered administrative expenses:
 - Form C, items 1.10, 1.30, 1.33, 1.60, 1.66, 1.80, 2.30, and 3.10

Except for items disallowed in whole or in part as EOs noted above, Finance is approving the remaining items listed in your ROPS. This is our determination with respect to any items funded from the Redevelopment Property Tax Trust Fund (RPTTF) for the June 1, 2012 property tax allocations. If your oversight board disagrees with our determination with respect to any items not funded with property tax, any future resolution of the disputed issue may be accommodated by amending the ROPS for the appropriate time period. Items not questioned during this review are subject to a subsequent review, if they are included on a future ROPS. If an item included on a future ROPS is not an enforceable obligation, Finance reserves the right to remove that item from the future ROPS, even if it was not removed from the preceding ROPS.

Please refer to Exhibit 12 at http://www.dof.ca.gov/assembly_bills_26-27/view.php for the amount of RPTTF that was approved by Finance based on the schedule submitted.

As you are aware the amount of available RPTTF is the same as the property tax increment that was available prior to ABx1 26. 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 in the RPTTF.

Please direct inquiries to Evelyn Suess, Supervisor or Brian Dunham, Lead Analyst at (916) 322-2985.

Sincerely,



MARK HILL
Program Budget Manager

cc: On following page

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cc: Mr. Ed Tewes, City Manager, City of Morgan Hill
Mr. Danny Wan, City Attorney, City of Morgan Hill
Mr. John Guthrie, Director of Finance Agency, County of Santa Clara
Ms. Irene Lui, Controller-Treasurer, County of Santa Clara