



December 18, 2012

Ms. Ingrid Alverde, Redevelopment Manager
City of Petaluma
27 Howard Street
Petaluma, CA 94952

Dear Ms. Alverde:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 26, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Petaluma Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 23, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 26, 2012. 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 14, 2012.

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 items being disputed.

In regards to any items that rely on an agreement that may have been reentered into, the Agency contends those items are enforceable obligations because the Agency reentered into the agreements by resolution of the Oversight Board. While HSC section 34178 (a) and 34180 (h) authorizes successor agencies to reenter into agreements, any agreement reentered into cannot conflict with the requirements set forth in HSC 34171 (d), as ABx1 26 did not specifically carve out an exception to the definition of an enforceable obligation nor did HSC section 34178 (a) or 34180 (h) notwithstanding HSC section 34171 (d). Therefore, the Oversight Board had no legal basis to approve an action that directly conflicted with and violated the definition of an enforceable obligation. Even if Finance did not object to the specific Oversight Board actions authorizing the Agency to reenter into agreements, the statute as a whole prohibits such an action from being validated if it conflicts with the definition of an enforceable obligation. Additionally, Finance has clearly defined authority under HSC section 34177 and 34179 (h) to review any items on ROPS to determine whether or not successor agencies are responsible for the obligation listed on their ROPS. Even if an Oversight Board approved an action that created an enforceable obligation, Finance has the authority to review the enforceable obligation for compliance with HSC section 34171 (d) or for compliance with any other statutory requirements contained in Chapter 26, statutes of 2012 (AB 1484) once it is placed on a ROPS. At no time can an Oversight Board action eliminate Finance's authority to review an enforceable obligation as part of a ROPS review.

- Item No. 6 – Housing Successor Management and Administration costs totaling \$2.3 million RPTTF. Finance continues to deny this item. Management, maintenance and/or administrative costs associated with the former Redevelopment Agency's (RDA) previous housing functions are not enforceable obligations. Upon the transfer of the former RDA's housing functions to the new housing entity, HSC section 34176 requires that, "all rights, powers, duties, obligations and housing assets, ...shall be transferred" to the new housing entity. This transfer of "duties and obligations" necessarily includes the transfer of any on-going management, maintenance and administrative costs. To conclude that such costs should be on-going enforceable obligations of the successor agency would require a transfer of tax increment for life – directly contrary to the wind down directive in ABx1-26/AB1484."
- Item No. 8 in the amount of \$1.1 million is reported as project management. The Agency indicates that this represents costs related to specific projects. Finance concurs that projects costs are outside of the administrative cost cap and can be listed on the ROPS as an enforceable obligation. However, the Agencies projects for which this costs are attributable have been denied by Finance. As such, there should be no upcoming project costs related to those projects. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding.
- Items Nos. 9, 10, 11, 17, 18, 19, 21, 24, 25, 27, 30 and 37 totaling \$26.2 million. Finance continues to deny these items. We continue to maintain that the former RDA is not a party to the contracts and is not responsible for payment. Therefore, these line items are not enforceable obligations and not eligible for funding. To the extent the Agency has excess bond proceeds issued prior to January 1, 2011, which are the intended funding sources for some of these projects, upon receiving a Finding of Completion from Finance, these projects may become eligible for funding pursuant to HSC section 34191.4 (c). Until then, they are not enforceable obligations and not authorized for payment.
- Finance continues to deny the items below, which total \$265,253 and relate to unenforceable obligations identified above:
 - Item No. 20 - Rainier Avenue Cross-Town Connector
 - Item Nos. 22 and 23 - Petaluma River Trail
 - Item No. 26 - East Washington Interchange
- Items Nos. 13, 14, 15, and 16 total \$2.6 million. Finance continues to deny the items. HSC Section 34163 (c) states that the agency shall not have the authority to renew or extend agreements. Based upon review of documentation provided, the related contracts expired June 30, 2011.
- Item No. 38 in the amount of \$5.5 million is a cooperative agreement between the City and the former RDA. Finance continues to deny the item. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the redevelopment agency (RDA) and the former RDA are not enforceable obligations.
- Administrative costs funded by RPTTF exceed the allowance by \$7,600. HSC section 34171 (b) limits fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the successor agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 in administrative expenses. The county auditor-controller distributed \$62,500 for administrative costs for the July through December 2012 period, thus leaving a balance of \$187,500 available for the January through June

2013 period. Although \$125,000 is claimed for administrative cost, Items 7, 12, 31, 32, and 35 totaling \$70,100 are considered administrative expenses and should be counted toward the cap. Therefore, \$7,600 of excess administrative cost is not allowed.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$3,101,288 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 5,064,172
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item No. 6	37,500
Item No. 8	150,000
Item No. 9	3,750
Item No. 10	50,000
Item No. 11	100,000
Item No. 17	552,000
Item No. 19	345,500
Item No. 25	350,000
Item No. 30	25,000
Item No. 20	6,000
Item No. 22	20,329
Item No. 23	9,505
Item No. 13	102,000
Item No. 14	37,500
Item No. 15	166,200
Item No. 16	125,000
Item No. 7	34,500
Item No. 12	7,500
Item No. 31	3,100
Item No. 32	12,500
Item No. 35	12,500
Total approved RPTTF for enforceable obligations	\$ 2,913,788
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	187,500
Total RPTTF approved:	\$ 3,101,288
Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	3,173,884
Total RPTTF for the period January through June 2013	2,913,788
Total RPTTF for fiscal year 2012-13:	\$ 6,087,672
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	250,000
Administrative allowance for the period of July through December 2012	62,500
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 187,500

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS III form the estimated obligations and actual payments associated with the January through June 2012 period. The amount of RPTTF approved in the above table will be adjusted by the county auditor-controller to account for differences between actual payments and past estimated obligations. Additionally, these estimates and accounts are subject to audit by the county auditor-controller and the State Controller.

The amount available from the RPTTF is the same as the property tax increment that was available prior to 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 successor agency in the RPTTF.

Except for items disallowed as noted above, Finance is not objecting to the remaining items listed in your ROPS III. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2013. 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 questioned on this ROPS or a preceding ROPS.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. John C. Brown, City Manager, City of Petaluma
Ms. Sue Castellucci, Housing Coordinator, City of Petaluma
Mr. Erick Roeser, Property Tax Manager, Sonoma County
California State Controller's Office