



REVISED

December 21, 2012

Mr. Mark Sawicki, Economic Development & Housing Manager  
City of San Carlos  
600 Elm Street  
San Carlos, CA 94070

Dear Mr. Sawicki:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 12, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of San Carlos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 28, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 12, 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 7, 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 specific item being disputed.

- Item 14 and 15 in the amount of \$303,000 pertain to remediation expenditures for contracts not yet awarded. Finance continues to deny the items. Finance denied the items as HSC section 34163 (b) prohibits a redevelopment agency (RDA) from entering into a contract with any entity after June 27, 2011. The Agency contends the items are enforceable obligations because these items represent costs of maintaining real property assets of the Agency. Additionally, the Agency requested the \$303,000 for the two items be reduced to \$28,000. However, the Remedial Action Agreement for the cleanup of the property states that the City of San Carlos is the responsible party and not the former RDA. Furthermore, the agreement was signed on November 29, 2011; so, even if the former RDA were named as a responsible party, HSC section 34163 (b) prohibits a RDA from entering into a contract or agreement with any entity after June 27, 2011. Therefore, the items are not enforceable obligations.
- Item 16, 17, and 18 in the amount of \$6.3 million is a reserve for a pending legal settlement with local school and community college districts. Finance no longer objects to the items. Finance denied the items as the settlement agreement has not been entered by a competent court of law or binding arbitration decision as required by HSC section 34171 (d) (1) (D). Pending settlements do not meet the definition of an enforceable obligation. Therefore, the \$6.3 million reserve is not enforceable and not eligible for funding. The Agency contends the items are enforceable obligations

because these obligations all relate to the settlement agreement with the three school districts which, subsequent to the August 28 filing of the original ROPS III, was executed by the Successor Agency and all parties and the judgment was recorded on December 7, 2012. HSC section 34171 (d) (1) (D) allows settlement agreements entered into by a competent court of law or binding arbitration decision to be enforceable obligations. Therefore, the items are enforceable obligations.

Furthermore, the Agency requested to revise the funding sources from \$6.3 million of reserve balances to \$4,496,017 of Low and Moderate Income Housing Fund, \$880,000 of Reserve Balances, and \$923,983 of Redevelopment Property Tax Trust Fund (RPTTF). Finance has made the adjustments.

- Finance initially determined that administrative costs funded by RPTTF exceed the allowance by \$62,000. HSC section 34171 (b) limits administrative costs to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$250,000 in administrative cost allowance. The Agency received \$187,000 for administrative costs in the period July through December 2012, which leaves a balance of \$63,000 available for the January through June 2013 period. Therefore, \$62,000 of the claimed \$125,000 is not allowed. However, based on further review, the county auditor-controller paid \$175,000 for administrative costs in the period July through December 2012 leaving a balance of \$75,000 available for the January through June 2013 period.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$1,661,181 as summarized below:

<b>Approved RPTTF Distribution Amount For the period of January through June 2013</b>	
Total RPTTF funding requested for obligations	\$ 1,889,181
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 14	3,000
Item 15	300,000
Total approved RPTTF for enforceable obligations	<u>\$ 1,586,181</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>75,000</u>
<b>Total RPTTF approved:</b>	<b>\$ 1,661,181</b>
<b>Administrative Cost Calculation</b>	
Total RPTTF for the period July through December 2012	\$ 1,285,330
Total RPTTF for the period January through June 2013	1,586,181
<b>Total RPTTF for fiscal year 2012-13:</b>	<b>\$ 2,871,511</b>
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	175,000
<b>Allowable RPTTF distribution for administrative cost for ROPS III:</b>	<b>\$ 75,000</b>

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 Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



STEVE SZALAY  
Local Government Consultant

cc: Ms. Tracy Kwok, Financial Services Manager, City of San Carlos  
Ms. Shirley Tourel, Senior Internal Auditor, County of San Mateo  
California State Controller's Office