



December 18, 2012

Ms. Tina Rodriguez, Administrative Services Officer
City of Santa Monica
1685 Main Street
Santa Monica, CA 90401

Dear Ms. Rodriguez:

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 Santa Monica 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 of the items denied by Finance. The Meet and Confer session was held on October 31, 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 Nos. 9, 10, 16, 17, and 18 – City loans totaling \$121 million. Finance continues to deny the items at this time. Finance denied the items as 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, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. Upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.
- Item No. 14 – Civic Center Joint Use Agreement in the amount of \$126 million. Finance continues to deny this item. Finance denied the item as it is our understanding the contract for this line item was awarded after June 27, 2011. HSC section 34163 (b) prohibits a RDA from entering into a contract with any entity after June 27, 2011. Finance notes the Agency has requested bond proceeds to fund a portion of this project. However, bonds funds not contractually obligated prior to June 28, 2011 must be defeased or repurchased on the open market for cancellation. Per HSC section 34191.4 (c), successor agencies who have been issued a Finding of Completion by Finance are allowed to enter into enforceable obligations to use unencumbered proceeds from bonds issued prior to December 31, 2010 for the purposes for which the bonds were issued. Successor agencies are required to defease or repurchased on the open market for cancellation any bonds that cannot be used for the purpose they were issued or if they

were issued after December 31, 2010. The bonds were issued on June 7, 2011. Therefore, this item is not an enforceable obligation.

- Item Nos. 19 through 23 – Agreements between the City and third parties totaling \$21.9 million. Finance no longer objects to Item 19; however, Finance continues to deny Items 20 and 21 at this time, and denies Items 22 and 23. Finance denied the items as it is our understanding the Agency is not a party to these agreements.
 - For Item 19, the Agency contends they are enforceable obligations because loan commitments for construction and permanent loans were authorized in March 2011. The Second Amended and Restated Program Loan Agreement dated November 30, 2009 between the former RDA and the Community Corporation of Santa Monica (borrower) along with the first commitment letter from the former RDA to the borrower dated March 9, 2011 adding additional loan funds is an enforceable obligation. The second commitment letter dated March 7, 2012 is from the City to the borrower and is not an enforceable obligation. Therefore, the Agency may loan funds in accordance with the Loan Agreement under the terms of the commitment letter dated March 9, 2011.
 - For Items 20, 21, and 22, the Agency contends they are enforceable obligations based on the Cooperation Agreement entered into on August 1, 2010 to carry out the affordable housing projects. However, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable; therefore, the Cooperation Agreement is no longer valid and the Loan Agreements entered into by the City are not enforceable obligations of the former RDA or the Agency. In addition, to the extent Items 20 and 21 were to be funded with housing bonds, the items are not eligible for bond funding at this time. However, successor agencies may be eligible to expend bonds issued prior to January 1, 2011 once a finding of completion is received per 34191.4 (c) or after the requirements of HSC section 34176 (g) are met. Those obligations should be reported on a subsequent ROPS.
 - For Item 23, the Agency contends it is an enforceable obligation because this expenditure was approved by the City Council on November 14, 2006, and a Cooperation Agreement was entered into on May 17, 2007 between the RDA and the City of Santa Monica Housing Authority for the Senior Homeless Prevention Voucher Program (Voucher Program). However, HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable; therefore, the Cooperation Agreement is no longer valid. Furthermore, there were no actions taken by the former RDA Board to commit or pledge the RDA's LMIHF to the Voucher Program that is being administered by the City of Santa Monica Housing Authority. Therefore, the item is not an enforceable obligation.
- Item No. 29 – Successor Housing Agency Administrative Costs in the amount of \$2 million. Finance continues to deny the item. Finance denied the item as HSC section 34176 (a) (1) states if a city, county, or city and county elects to retain the authority to perform housing functions previously performed by a RDA, all rights, powers, duties, obligations, and housing assets shall be transferred to the city, county, or city and county. Since the City of Santa Monica assumed the housing functions, the

administrative costs associated with these functions are the responsibility of the housing successor. The Agency contends the item is an enforceable obligation because HSC section 34176 (a) (1) excludes from the transfer to the successor housing agency "enforceable obligations retained by the successor agency." However, as of June 27, 2011, there were no enforceable obligations entered into by the former RDA, as defined by HSC section 34171 (d), for the successor agency to retain. Additionally, the Agency contends that HSC section 33418 (a) required the former RDA to "monitor, on an on-going basis, any housing affordable to persons and families of low and moderate income developed or otherwise made available pursuant to the provision." To the extent that the housing assets requiring the on-going monitoring were transferred to the housing successor agency, the obligation to provide the on-going monitoring was also transferred. Therefore, the item is not an enforceable obligation.

- Item Nos. 25, 26, and 28 totaling \$435,738 were reclassified as administrative costs. The Agency contends the items should not have been reclassified and are enforceable obligations because they include legal and financial services that are necessary to wind down the former RDA and payments for the Agency's operational costs to rent office space, building maintenance, equipment and supplies, and pay related expenses pursuant to HSC section 33127 and for carrying insurance pursuant to HSC section 33134. As further discussed below, Finance continues to reclassify \$61,346 of Item 25 and the full amount of Item 28 as administrative costs. Although Finance previously reclassified \$182,667 of Item 25 and the full amount of Item 26 as administrative costs, these items are now denied because they are not enforceable obligations.
 - For Item 25, \$61,346 is related to general special counsel for the Oversight Board and the Agency's general counsel. Item 28 includes costs for utilities, office supplies, rent, insurance, building maintenance, fiscal agent fees, and furniture and furnishings and are subject to the administrative cost allowance because they do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b):
 - Any litigation expenses related to assets or obligations.
 - Settlements and judgments.
 - The costs of maintaining assets prior to disposition.
 - Employee costs associated with work on specific project implementation activities, including, but not limited to, construction inspection, project management, or actual construction, shall be considered project-specific costs.
 - The amount of \$182,667 of Item 25 and the full amount of Item 26 are for contracts between the City of Santa Monica and various third parties; neither the former RDA nor the Agency is a party to the contracts. Since neither the former RDA nor the Agency is a party to the contracts or responsible for payment of the contracts, the items are neither enforceable obligations nor should they be reclassified as administrative costs.
- Claimed administrative costs exceed the allowance by \$1,801,139. HSC section 34171 (b) limits the fiscal year 2012-13 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. As a result, the Agency is eligible for \$874,268 for administrative expenses. The Los Angeles Auditor-Controller's Office distributed \$742,848 of administrative costs for the July through

December 2012 period, thus leaving a balance of \$131,420 available for the January through June 2013 period. Although \$49,928 is claimed for administrative cost, a portion of item numbers 11 and 25 and item number 28 totaling \$1,882,631 are considered administrative expenses and should be counted toward the cap. Therefore, \$1,801,139 of excess administrative cost is not allowed.

In addition, per Finance's ROPS letter dated October 12, 2012, the following items not disputed by the Agency continue to be denied:

- Item No. 11 – Unfunded pension liability in the amount of \$2.5 million. It is our understanding the amount includes \$1.25 million of administrative costs associated with salaries and benefits of current Agency employees. The Agency requested \$1,873,500 of unfunded pension liability on this ROPS. A reasonable payment schedule for the \$1.25 million in unfunded pension liabilities allocated over the remaining estimated four-year term of the oversight board results in eight bi-annual payments of \$156,200. Therefore, \$156,200 of unfunded pension obligation is an enforceable obligation payable on ROPS III. The remaining balance of \$1,717,300 is not an enforceable obligation and has been reclassified to administrative cost.
- Item No. 15 – Agreement between the City and third parties totaling \$1.9 million. It is our understanding the Agency is not a party to the agreement. Therefore, the item is not an enforceable obligation and not eligible for funding on this ROPS.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$4,512,107 as summarized in the following table:

Approved RPTTF Distribution Amount	
For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 22,735,876
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 11*	1,717,300
Item 14	8,130,000
Item 15	166,349
Item 16	3,229,766
Item 17	2,551,505
Item 18	1,118,820
Item 25	182,667
Item 25*	61,346
Item 26	87,740
Item 28*	103,985
Item 29	1,005,711
Total approved RPTTF for enforceable obligations	\$ 4,380,687
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	131,420
Total RPTTF approved:	\$ 4,512,107

* Reclassified as administrative cost

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 24,761,595
Total RPTTF for the period January through June 2013	4,380,687
Total RPTTF for fiscal year 2012-13:	\$ 29,142,282
Allowable administrative cost for fiscal year 2012-13 (Greater of 3% or \$250,000)	874,268
Administrative allowance for the period of July through December 2012	742,848
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 131,420

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. Nia Tang, Acting Administrative Services Officer, City of Santa Monica
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office