



December 18, 2012

Ms. Nancy Manchester, Program Specialist
City of Santa Rosa
90 Santa Rosa Avenue
Santa Rosa, CA 95404

Dear Ms. Manchester:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 6, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Rosa Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 22, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 6, 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 19, 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.

In regards to items that may have been reentered into, the Agency contends those items are enforceable obligations because the Agency was authorized to reenter into the agreements by resolution of the duly appointed 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). At no time can an Oversight Board action eliminate Finance's authority to review an enforceable obligation as part of a ROPS review.

- Items 81 and 82 – SMART Trail Funding Agreement and Burbank Path Funding Agreement, respectively, totaling \$919,001. Finance is reversing its prior determination. Although the Agency listed this item on the ROPS as a City loan, supporting documentation shows these items are funding agreements between the County of Sonoma and the former redevelopment agency (RDA) entered into prior to June 27, 2011. The County of Sonoma was not the creator of the RDA; therefore, these items are enforceable obligations.
- Items 12 – EPA Brownfield Loan in the amount of \$675,596. Finance continues to deny this item. Finance previously denied this item because it is an agreement between the City and the former RDA. The Agency contends this loan was created through a grant program from the Environmental Protection Agency (EPA) and the EPA requires repayment of the loaned funds. Further review of the item shows the cleanup was for property owned by the City of Santa Rosa (City) and the grant agreement is between the City and the EPA. The item listed on the ROPS is an agreement between the City and the former RDA; therefore, HSC section 34171 (d) (2) applies. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former redevelopment agency (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. However, per HSC section 34191.4 (b), upon obtaining a Finding of Completion from Finance, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created the redevelopment agency shall be deemed to be enforceable obligations provided the oversight board makes a finding the loan was for legitimate redevelopment purposes.
- Item 13, 17, 22 - City Loans and Cooperation Agreement in the amount of \$6.6 million. Finance continues to deny this item. These items were denied by Finance because they are loans or agreements between the Agency and the City of Santa Rosa. The Agency contends these are enforceable obligations under HSC section 34178 (a). However, HSC section 34171 (d) (2) states loan agreements entered into between the RDA and the city, county, or city and county that created it are not enforceable obligations. HSC section 34191.4 (b), upon obtaining a Finding of Completion from Finance, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created the redevelopment agency shall be deemed to be enforceable obligations provided the oversight board makes a finding the loan was for legitimate redevelopment purposes.
- Items 28, 42, 49, 50, 54, and 67 – in the amount of \$6.8 million. Finance denied these items because they are contracts between the former redevelopment agency (RDA) and the City. Finance continues to deny these items. The Agency contends the contracts are with the Housing Authority of the City of Santa Rosa, a separate legal entity; however HSC section 34167.1 (a) states the definition of a city includes any reporting entity of the City for the purposes of its comprehensive annual financial report (CAFR) or similar report. Finance reviewed the annual CAFR provided on the City's website and determined, even though it is a separate legal entity, the Authority is included in the CAFR and is therefore included in the definition of City as defined in HSC 34167.1. Per HSC section 34171 (d) (2), agreements, contracts, or arrangements between the city that created the (RDA) and the former RDA are not enforceable. However, per HSC section 34191.4 (b), upon obtaining a Finding of Completion from Finance, loan agreements entered into between the redevelopment agency and the city, county, or city

and county that created the redevelopment agency shall be deemed to be enforceable obligations provided the oversight board makes a finding the loan was for legitimate redevelopment purposes.

- Items 30 through 39, 43, 55 through 58, 68 through 78, 80, and 84 through 86 in the amount of \$12.15 million. 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 obligations. Finance continues to deny these items under the same premise. The Per HSC section 34191.4 (b), upon obtaining a Finding of Completion from Finance, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created the redevelopment agency shall be deemed to be enforceable obligations provided the oversight board makes a finding the loan was for legitimate redevelopment purposes.
- Items 29 and 66 in the amount of \$6.56 million are identified as obligations of the housing entity. HSC section 34176 (a) (1) requires the housing entity to be responsible for the housing duties and obligations previously performed by the redevelopment agency. The housing entity is responsible for its own operations and administrative costs. In addition, the agreement for these services is between the Agency and the Housing Authority of the City of Santa Rosa. HSC section 34171 (d) (2), agreements, contracts, or arrangements between the city that created the (RDA) and the former RDA are not enforceable.
- Item 26, 27, and 46 – Professional Services Agreements totaling \$167,222. Finance reclassified these items as administrative costs in its October 6, 2012 letter. Further review of the documentation provided indicates the contracts are for general auditing and financial services. While some of the costs are attributed to the Agency, these are general audit and financial services which are administrative costs and count towards the administrative costs cap; therefore, Finance continues to classify these items as administrative costs.

Administrative costs funded by RPTTF exceed the allowance by \$39,403. HSC section 34171 (b) limits administrative costs 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 \$153,822 for administrative costs for the July through December 2012 period, thus leaving a balance of \$96,178 available for the January through June 2013 period. Although \$125,000 is claimed for administrative cost, Items 26, 27, and 46 totaling \$10,581 are considered administrative expenses and should be counted toward the cap. Therefore, \$39,403 of excess administrative cost is not allowed.

In addition, per Finance's ROPS letter dated October 6, 2012, the following items continue to be denied and were not contested by the Agency:

- Items 14, 15, 16, 18, 19, 21 totaling \$366,000 are loans or agreements between the Agency and the City of Santa Rosa. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former redevelopment agency (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. Therefore, these items are not enforceable and not eligible for funding.

Upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is: \$1,607,783 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 3,166,342
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 12	337,998
Item 13	480,648
Item 15	61,000
Item 17	464,242
Item 18	61,000
Item 21	61,000
Item 22	90,768
Item 26	3,149
Item 27	3,432
Item 29	43,750
Item 46	4,000
Item 66	43,750
Total approved RPTTF for enforceable obligations	<u>\$ 1,511,605</u>
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	<u>96,178</u>
Total RPTTF approved:	\$ 1,607,783

Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 3,322,500
Total RPTTF for the period January through June 2013	1,511,605
Total RPTTF for fiscal year 2012-13:	\$ 4,834,105
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	153,822
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 96,178

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.

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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. Erick Roeser, Property Tax Manager, County of Sonoma
California State Controller's Office