



December 18, 2012

Mr. John D. Haig, Jr., Redevelopment Manager
Sonoma County Community Development Commission
1440 Guerneville Road
Santa Rosa, CA 95403

Dear Mr. Haig:

Subject: Recognized Obligation Payment Schedule

This letter supersedes Finance's Recognized Obligation Payment Schedule (ROPS) letter dated October 5, 2012. Pursuant to Health and Safety Code (HSC) section 34177 (m), the County of Sonoma Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS III) to the California Department of Finance (Finance) on August 21, 2012 for the period of January 1 through June 30, 2013. Finance issued its determination related to those enforceable obligations on October 5, 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 Monday, October 29, 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 Items 70 and 71, the Agency contends the items are enforceable obligations because the Agency was authorized to reenter into the agreements by resolution of the duly appointed Oversight Board after making findings of benefit to taxing entities at their meeting on March 26, 2012, as permitted by Health and Safety Code sections 34171 (d) (2), 34178 (a), and 34180 (h) as amended by ABx1 26 and effective as of the date of the Oversight Board's action. 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.

- Item No. 32 – Thompson Parking Lot in the amount of \$10,404 from Redevelopment Property Tax Trust Fund (RPTTF). Finance continues to deny this item. Finance denied the item as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency (RDA) and the former RDA are not enforceable. The underlying document is a reimbursement agreement between the Agency and the entity that created it – Sonoma County. The Agency contends the item is an enforceable obligation because the maintenance work is required to be performed while the Agency owns the asset prior to disposition. Finance agrees that costs to maintain assets prior to disposition are enforceable obligations under HSC section 34171 (d) (1) (F); however, the underlying contract is with Sonoma County, which is not an enforceable obligation under HSC section 34171 (d) (2). Therefore, this item is not an enforceable obligation.
- Item No. 70 – Roseland Village Development in the amount of \$6.6 million from RPTTF and Reserve Balances. Finance continues to deny this item. Finance denied the item as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable. The underlying document is a reimbursement agreement between the Agency and the entity that created it – Sonoma County. The Agency contends the item is an enforceable obligation because the Agency was authorized to reenter into the agreement by resolution of the duly appointed Oversight Board after making findings of benefit to taxing entities at their meeting on March 26, 2012, as permitted by Health and Safety Code sections 34171 (d) (2), 34178 (a), and 34180 (h) as amended by ABx1 26 and effective as of the date of the Oversight Board's action. Furthermore, the Agency contends the item is an enforceable obligation because environmental cleanup was ordered by the State Water Resources Quality Board and the Agency still has to maintain the property and demolish the buildings. Finance agrees that any existing cleanup plans and liability limits authorized under the Polanco Redevelopment Act shall be transferred to the successor agency pursuant to HSC section 34173 (f); however, the underlying contract is with Sonoma County, which is not an enforceable obligation under HSC section 34171 (d) (2) and the Oversight Board had no legal basis to approve an action that directly conflicts with and violates the definition of an enforceable obligation. Therefore, this item is not an enforceable obligation.
- Item No. 71 – Highway 12 Phase 2 in the amount of \$9.5 million from RPTTF and Bond Proceeds. Finance continues to deny this item. Finance denied the item as HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the city, county, or city and county that created the RDA and the former RDA are not enforceable. The underlying document is a reimbursement agreement between the Agency and the entity that created it – Sonoma County. The Agency contends the item is an enforceable obligation because the Agency was authorized to reenter into the agreement by resolution of the duly appointed Oversight Board after making findings of benefit to taxing entities at their meeting on March 26, 2012, as permitted by Health and Safety Code sections 34171 (d) (2), 34178 (a), and 34180 (h) as amended by ABx1 26 and effective as of the date of the Oversight Board's action. The underlying contract is with Sonoma County, which is not an enforceable obligation under HSC section 34171 (d) (2) and the Oversight Board had no legal basis to approve an action that directly conflicts with and violates the definition of an enforceable obligation. Therefore, this item

is not an enforceable obligation. Although in relation to the 2008 bond proceeds identified as a funding source for the project, the item may be an enforceable obligation per HSC section 34191.4, which states that any successor agency that has been issued a finding of completion by Finance may use proceeds derived from bonds issued on or before December 31, 2010, for the purposes for which the bonds were sold. The Agency has not been issued a finding of completion; therefore, the item is currently not an enforceable obligation.

- Items Nos. 76, 77, 78, 83, and 91 totaling \$150,660 are considered administrative expenses and have been reclassified. Finance continues to reclassify Item 91 as an administrative cost and denies Items 76, 77, 78, and 83 as enforceable obligations. The Agency contends the items are enforceable obligations because all of the services are required for implementation of specific projects that are enforceable obligations and are not administrative in nature. The costs associated with Item 91 do not fall into any of the following categories that are specifically excluded from the administrative cap as defined by HSC section 34171 (b); therefore, Item 91 is reclassified as an administrative cost:
 - 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 contracts provided for Items 76, 77, 78, and 83 are between the Sonoma County Community Development Commission (Commission) and various third parties, not the Agency. In an agreement dated February 1, 2012, the Agency designated the Commission to perform the duties, functions, and responsibilities required by ABx1 26 for and on behalf of the Agency. However, HSC section 34177.3 (c) states the "successor agencies shall lack the authority to, and shall not, transfer any powers or revenues of the successor agency to any other party, public or private." Therefore, the agreement is invalid and the Commission could not enter into the various contracts for these items on behalf of the Agency. Since the Agency is not a party to the contracts, the items are neither enforceable obligations nor should they be reclassified as administrative costs.

- The Agency requested further clarification on how the amount approved for the administrative cost distribution was determined. Requested administrative cost distribution in the amount of \$124,984 – Finance reduced the administrative cost to \$0 because an administrative cost allowance totaling \$250,000 was approved for the July 1 through December 31, 2012 period. However, based on further review, for the July 1 through December 31, 2012 period, Finance approved the \$125,016 requested for the administrative allowance, not \$250,000. Per HSC section 34171 (b), an administrative cost allowance is up to 3 percent of the property tax allocated to the Redevelopment Obligation Retirement Fund money that is allocated to the successor agency for each fiscal year; provided, however, that the amount shall not be less than \$250,000. Since \$125,016 of the \$250,000 was approved for the July 1 through December 31, 2012 period, \$124,984 is remaining for the January 1 through June 30, 2013 period. Since \$5,712 was reclassified as administrative costs, the Agency has exceeded their administrative allowance by \$5,712.

- The Agency believed that the dollar amount of "RPTTF funding requested for obligations for the January through June 2013 period should have been \$2,668,779 rather than the \$2,643,423 shown in the table below. The amount listed in the table reflects Line B – Anticipated Enforceable Obligations Funded with RPTTF of the ROPS Summary Sheet, which is \$2,643,423. This is the amount of anticipated enforceable obligations to be paid for the January through June 2013 period from RPTTF as shown on the ROPS.

The Agency's maximum approved RPTTF distribution for the reporting period is: \$693,211 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2013	
Total RPTTF funding requested for obligations	\$ 2,643,423
Less: Six-month total for item(s) denied or reclassified as administrative cost	
Item 32	5,202
Item 70	682,367
Item 71	1,236,967
Item 76	47,586
Item 77	76,134
Item 78	19,032
Item 83	2,196
Item 91 - Reclassified as Administrative Cost	5,712
Total approved RPTTF for enforceable obligations	\$ 568,227
Plus: Allowable RPTTF distribution for administrative cost for ROPS III	\$ 124,984
Total RPTTF approved:	\$ 693,211
Administrative Cost Calculation	
Total RPTTF for the period July through December 2012	\$ 455,034
Total RPTTF for the period January through June 2013	568,227
Total RPTTF for fiscal year 2012-13:	\$ 1,023,261
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	125,016
Allowable RPTTF distribution for administrative cost for ROPS III:	\$ 124,984

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. Kathleen Kane, Director, Sonoma County Community Development Commission
Mr. Erick Roeser, Property Tax Manager, Sonoma County
California State Controller's Office