



April 14, 2013

Ms. Tina Rodriguez, Administrative Services Officer
City of Santa Monica
1901 Main Street, Suite D
Santa Monica, CA 90405

Dear Ms. Rodriguez:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Monica Redevelopment Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on March 1, 2013 for the period of July through December 2013. Finance has completed its review of your ROPS 13-14A, which may have included obtaining clarification for various items.

HSC section 34171 (d) defines enforceable obligations. Based on a sample of line items reviewed and application of the law, the following do not qualify as enforceable obligations:

- Item Nos. 5 through 7 – Bond reserves required by indentures totaling \$7.9 million. It is our understanding these reserves are already on deposit with the fiscal agent and no additional reserve funds are required. Therefore, these items are not enforceable obligations.
- Item Nos. 20 through 22, and 29 – Affordable housing projects totaling \$14.5 million. These items were previously denied in our letter dated October 12, 2012. Our determination was further confirmed in our meet and confer letter dated December 18, 2012. To reiterate Finance's position, we note the following:
 - Item Nos. 20 through 22 – Agreements between the City and third parties. It is our understanding the Agency is not a party to these agreements. Therefore, these items are not enforceable obligations and not eligible for funding on the ROPS. To the extent bond proceeds are available for these projects, they may become enforceable pursuant to HSC section 34191.4 (c) upon receiving a Finding of Completion from Finance. Until then, this item is not authorized for payment.
 - Item No. 29 – Successor Housing Agency Administrative Costs. 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. Therefore, this item is not an enforceable obligation and not eligible for RPTTF funding on the ROPS.

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. Further, the Agency contends, HSC section 34176 (a) (1) excludes from the transfer to the successor housing agency "enforceable obligations retained by the successor agency." In addition, 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." However, for the reasons stated above, these items are not enforceable obligations.

- Claimed administrative costs exceed the allowance by \$96,226. HSC section 34171 (b) limits fiscal year 2013-14 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 \$860,070 in administrative expenses during ROPS 13-14A. Although \$754,871 is claimed for administrative cost, Item No. 32 for Agency office space rental expense in the amount of \$200,425 is considered an administrative expense and should be counted toward the cap. Therefore, \$96,226 of excess administrative cost is not allowed.
- ROPS 13-14A requested \$4.5 million in reserve funding for Item No. 19 which was deemed an enforceable obligation per Finance's December 18, 2012 ROPS III Meet and Confer determination letter. Because any unencumbered reserve funding should be remitted to the county auditor controller for distribution to the affected taxing entities as a result of the Due Diligence Reviews, Finance is changing the funding source to Redevelopment Property Tax Trust Fund (RPTTF). As a result, the total ROPS 13-14A RPTTF funding requested for enforceable obligations has increased by \$4.5 million to \$30.4 million.

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14A. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14A, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

The Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$29,512,034 as summarized below:

| Approved RPTTF Distribution Amount | |
|--|----------------------|
| For the period of July through December 2013 | |
| Total RPTTF funding requested for obligations | \$ 25,910,399 |
| Plus: Six-month total for items reclassified as RPTTF: | 4,500,000 |
| Minus: Six-month total for items denied or reclassified as administrative cost | |
| Item 29 | 1,540,975 |
| Item 32* | 200,425 |
| Total approved RPTTF for enforceable obligations | <u>\$ 28,668,999</u> |
| Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost | <u>860,070</u> |
| Minus: ROPS II prior period adjustment | <u>(17,035)</u> |
| Total RPTTF approved for distribution: | \$ 29,512,034 |

*Reclassified as administrative cost

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2012 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the above table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Please refer to the ROPS 13-14A schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14A Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14A%20Forms%20by%20Successor%20Agency/).

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 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 denied on this ROPS or a preceding ROPS. The only exception is for those items that have received a Final and Conclusive determination from Finance pursuant to HSC 34177.5 (i). Finance's review of items that have received a Final and Conclusive determination is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of 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.

To the extent proceeds from bonds issued after December 31, 2010 exist and are not encumbered by an enforceable obligation pursuant to 34171 (d), HSC section 34191.4 (c)(2)(B) requires these proceeds be used to defease the bonds or to purchase those same outstanding bonds on the open market for cancellation.

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Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at
(916) 445-1546.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Szalay', with a stylized flourish at the end.

STEVE SZALAY
Local Government Consultant

cc: Ms. Elsa Trujillo, Senior Development Analyst, City of Santa Monica
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office