DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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May 18, 2012

Edmund Suen, Finance Director
City of East Palo Alto
2415 University Avenue
East Palo Alto, CA 94303

Dear Mr. Suen:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of East Palo Alto Successor Agency (SA) submitted a revised Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 27, 2012, for the period January through June 2012. Finance staff contacted you for clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligations characteristics. Based on our application of the law, we do not believe the following items qualify as Enforceable Obligations (EO):

- Page 1, item 1 through 9, totaling $135,131 represents developers' money on deposit with the former RDA. Unused deposited funds should be returned to developers. This is not an obligation of the SA. Therefore, these items are not EOs.

- Page 1, item 12 and 14 totaling $1,263,786 for repayment agreements between the former RDA and the City. 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 obligations.

- Page 1, item 13a totaling $475,200 for local match of a federal grant. There is no signed contract to support this amount. HSC Section 34163 (b) prohibits the commitment to commence if valid contracts have not been entered into prior to June 28, 2011.

- Page 1, item 18 totaling $100,000 represents the estimated cost for the improvement of a property owned by the former RDA. HSC Section 34163 (b) prohibits a redevelopment agency from incurring any obligations or making commitments after June 27, 2011.

- Page 1, item 20 through 23 totaling $800,000 for federal grants received. There are no contracts with a third party; therefore, these items are not EOs.

- Page 1, item 36 in the amount of $9,929 for a loan signed after June 27, 2011. HSC Section 34163 (b) prohibits an SA from making commitments after June 27, 2011.

- Administrative costs totaling $325,900 are not allowed. HSC section 34171 (b) limits the 2011-12 administrative cost allowance to five percent of the property tax allocated to the successor agency or $250,000, whichever is greater. Five percent of the property tax allocated is $31,688. Therefore, $325,900 of the claimed $575,900 is not an EO. The

following items are administrative expenses: page 1, item 10, 11, 29, 30, 32 through 35 and page 2, item 20.

As authorized by HSC section 34179 (h), Finance is returning your ROPS for your reconsideration. This action will cause the specific ROPS items noted above to be ineffective until Finance approval. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO and submit to the following email address:

Redevelopment_Administration@dof.ca.gov

Finance may continue to review items on the ROPS in addition to those mentioned above and identify additional issues. We will provide separate notice if we are requesting further modifications to the ROPS. It is our intent to provide an approval notice with regard to each ROPS prior to the June 1 property tax distribution date.

Please direct any inquiries to Robert Scott, Supervisor or Kylie Lee, Lead Analyst at (916) 322-2985.

Sincerely,

Mark Hill

MARK HILL
Program Budget Manager

cc: Mr. Bob Adler, Auditor-Controller, San Mateo County