



May 14, 2012

Kevin Riper, Finance Director/Administrative Services Director
City of Morgan Hill
17575 Peak Avenue
Morgan Hill, CA 95037

Dear Mr. Riper:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the Morgan Hill Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on May 1, 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 obligation (EO) characteristics. Based on a sample of line items reviewed and application of the law, the following do not qualify as EOs:

- 2008 Tax Allocation Bonds - \$19.3 million in unencumbered or unexpended bond proceeds. There are no contracts in place for these bond proceeds. Section 34177 (i) states "bond proceeds shall be used for the purposes for which bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds." It is not the intent of ABx1 26 to allow successor agencies to enter into new contracts, unless those contracts are specifically required pursuant to the terms of another pre-existing contract that meets the requirements of ABx1 26, or are specifically required by bond indentures.
- Page 1, line item 8 – Madrone Downpayment Assistance Agreement in the amount of \$1.1 million. The loans associated with this project have not been approved and no contracts are in place. HSC section 34163 (b) prohibits a redevelopment agency from entering into a contract with any entity after June 27, 2011.
- Page 2, line items 6 through 11, 22 through 24, and 27 - Various contracts totaling \$2.1 million. HSC section 34163 (b) prohibits the Agency from entering into a contract with any entity after June 27, 2011. The contracts for these line items were executed after June 27, 2011.
- Administrative costs claimed exceed allowance by \$786,054. HSC section 34171 (b) limits administrative expenses to five percent of property tax allocated to the successor agency or \$250,000, whichever is greater. Five percent of the property tax allocated is \$388,242. Therefore, \$786,054 of the claimed \$1,174, 296 is not an EO. The following items were considered administrative expenses:
 - Page 2, item 29
 - Page 3, Items 1 - 11

Mr. Riper
May 14, 2012
Page 2

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 inquiries to Evelyn Suess, Supervisor or Douglas Evans, Lead Analyst at (916) 322-2985.

Sincerely,



MARK HILL
Program Budget Manager

cc: Mr. Ed Tewes, City Manager, City of Morgan Hill
Mr. Danny Wan, City Attorney, City of Morgan Hill
Mr. John Guthrie, Director of Finance Agency, County of Santa Clara
Ms. Irene Lui, Controller-Treasurer, County of Santa Clara