



December 17, 2013

Mr. Gary Ameling, Director of Finance
City of Santa Clara
1500 Warburton Avenue
Santa Clara, CA 95050

Dear Mr. Ameling:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated November 14, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Santa Clara Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to Finance on September 30, 2013, for the period of January through June 2014. Finance issued a ROPS determination letter on November 14, 2013. 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 December 4, 2013.

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 items being disputed.

- Item No. 13 – Claimed Administrative Costs exceed the allowance by \$992,156. 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 \$429,663 in administrative expenses. The Santa Clara County Auditor-Controller (CAC) distributed \$125,000 for administrative costs for the July through December 2013 period, thus leaving a balance of \$304,663 available for the January through June 2014 period. Although the Agency requests \$1,296,819 for administrative cost, only \$304,663 is available pursuant to the cap. Therefore, \$992,156 of excess administrative cost is not allowed.

The Agency contended that the \$12,000,000 reclassified from the Redevelopment Property Tax Trust Fund (RPTTF) to prior period residual balances should be included in the calculation to determine the three percent. However, HSC section 34171 (b) states that the administrative cost allowance is payable from property tax revenues of up to three percent of the property tax allocated to the Redevelopment Obligation Retirement Fund (RORF) money that is allocated to the successor agency for each fiscal year. It is Finance's understanding that the \$12,000,000 will not be allocated to the RORF, but will be paid directly from the Santa Clara CAC to the third party. Therefore, this amount

should not be included in the three percent calculation for the administrative cost allowance.

- Item No. 22 – ROEM Senior Housing (Predevelopment Loan) from other funds in the amount of \$157,091. Finance no longer denies this item. The Agency was approved to retain funds associated with this item in the Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) as the funds appear to have been committed prior to June 27, 2011. Therefore, the Agency is eligible for Other Funds.
- Item Nos. 23 through 29 – Affordable Housing Service Grant Agreements from other funds totaling \$102,465. Finance no longer denies these items. The Agency was approved to retain funds associated with this item in the LMIHF DDR as the funds appear to have been committed prior to June 27, 2011. Therefore, the Agency is eligible for Other Funds.
- Item No. 31 – Sublease Interest from other funds in the amount of \$2,027,717. Finance continues to deny this item. The Sports and Open Space Authority (SOSA) and the former RDA entered into a Cooperation Agreement on January 23, 1996, related to three parcels: R-1, R-3, and R-4. The Cooperation Agreement states that the former RDA shall pay SOSA the amount of rent actually received. Neither the master leases nor the sublease state an obligation for the former RDA to pay SOSA rent received under the subleases. Pursuant to HSC section 34167.10, SOSA falls under the definition of sponsoring entity. HSC section 34171 (d) (2) states that agreements, contracts, or arrangements between the sponsoring entity that created the RDA and the former RDA are not enforceable. Consequently, the Cooperation Agreement between the former RDA and SOSA is not an enforceable obligation and is no longer valid. Therefore, Item No. 31 is not an enforceable obligation and not eligible for funding on the ROPS.
- Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the CAC and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment. During the Meet and Confer process, the Agency disagreed with \$267,759 of the \$270,689 prior period adjustment made by the CAC. The CAC maintains that the prior period adjustment was calculated correctly. As previously stated, HSC section 34186 (a) allows the CAC to audit the self-reported prior period adjustments. Therefore, Finance accepts the CAC's audit of the prior period adjustment.
- During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting RPTTF funding. Pursuant to HSC section 34177 (l) (1) (E), RPTTF may be used as a funding source, but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation. The Agency has available other funds totaling a minimum of \$17,669,850. Per the City of Santa Clara's 2012 Comprehensive Annual Financial Report, lease revenues from Agency owned property and the Agency's leasehold interest total \$11,986,499 for fiscal year 2013-14, or \$998,875 per month. This figure only accounts for minimum revenues

and does not account for such revenues as percentage rents. Finance will work further with the Agency to determine the amount of additional revenues received. The Agency has accumulated revenue from the period of June 30, 2012 through December 31, 2013 (18 months). Therefore, the Agency has available other funds totaling a minimum of \$17,669,850 (\$998,875*18).

During the Meet and Confer process, the Agency contended that these funds are the subject of a preliminary injunction that prohibits the expenditures of these funds prior to resolution of the underlying case on its merits. While there is a question as to whether or not these funds are available for use, Finance will allow all approved enforceable obligations to be funded with RPTTF funding at this time. However, Finance will be seeking clarification with the court as to the availability of these funds for expenditure under the preliminary injunction, as it is clear to Finance that these funds belong to the Agency and should be available for expenditure on approved enforceable obligations.

In addition, per Finance's letter dated November 14, 2013, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- Item No. 30 – Affordable Housing Service Grant Agreement from other funds continues to be reduced in the amount of \$20,642. Although the Agency requests expenditures from other funds in the amount of \$70,642, only \$50,000 is allowed. The former RDA and Inn Vision executed an Affordable Housing Service Grant Agreement on October 7, 2010. Per the Agreement, the former RDA agreed to disburse an amount not to exceed \$50,000. The Agreement was amended on November 15, 2011 to increase the amounts payable by the Agency. HSC section 34163 (c) prohibits a redevelopment agency from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Therefore, the amount in excess of \$50,000 is not an enforceable obligation and not eligible for funding on ROPS.

In addition to the items reclassified above, Finance is reclassifying the following item based on residual RPTTF balances that should be used prior to requesting RPTTF.

- Item No. 8 – First Amendment to the Cooperation Agreement and First Amendment to the Predevelopment Funding Agreement in the amount of \$12,000,000. The Agency requests \$12,000,000 of RPTTF; however, Finance is reclassifying \$12,000,000 to prior period residual RPTTF balances. The Santa Clara CAC currently holds prior period residual RPTTF balances totaling \$25,151,539. The residual RPTTF balances were withheld due to a temporary restraining order issued by Superior Court of the State of California, County of Sacramento. Item No. 8 was determined to be an enforceable obligation for the ROPS 13-14B period. Consequently, the prior period residual RPTTF balances should be released by the Santa Clara CAC. Therefore, Finance is approving \$12,000,000 of prior period residual RPTTF balances and expects the remaining balances to be distributed to the taxing entities.

Except for items denied in whole or in part as enforceable obligations or for items that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. The Agency's maximum approved RPTTF distribution for the reporting period is \$11,523,027 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	23,489,053
Total RPTTF requested for administrative obligations	1,296,819
Total RPTTF requested for obligations	\$ 24,785,872
Total RPTTF requested for non-administrative obligations	23,489,053
Item reclassified to prior period residual RPTTF	
Item No. 8	(12,000,000)
Total RPTTF approved for non-administrative obligations	11,489,053
Total RPTTF requested for administrative obligations	1,296,819
Denied Item	
Item No. 13	(992,156)
Total RPTTF approved for administrative obligations pursuant to the Admin Cap	304,663
Total RPTTF approved for obligations	\$ 11,793,716
ROPS III prior period adjustment	(270,689)
Total RPTTF approved for distribution	11,523,027

Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	2,833,040
Total RPTTF for 13-14B (January through June 2014)	11,489,053
Total RPTTF for fiscal year 2013-14	14,322,093
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	429,663
Administrative allowance for 13-14A (July through December 2013)	(125,000)
Allowable for administrative cost for ROPS 13-14B	304,663

Pursuant to HSC section 34177 (l) (1) (E), agencies are required to use all available funding sources prior to RPTTF for payment of enforceable obligations. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B review, Finance requested financial records to support the fund balances reported by the Agency; however, Finance was unable to reconcile the financial records to the amounts reported. As a result, Finance will continue to work with the Agency after the ROPS 13-14B review period to properly identify the Agency's fund balances. If it is determined the Agency possesses fund balances that are available to pay approved obligations, the Agency should request the use of these fund balances prior to requesting RPTTF in ROPS 14-15A.

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

<http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/>.

This is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only to items where funding was requested for the six month period. 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 section 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 HSC section 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.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Howard', with a long horizontal stroke extending to the left.

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Tamera Haas, Assistant Director of Finance, City of Santa Clara
Ms. Irene Lui, Controller Treasurer, Santa Clara County
California State Controller's Office