



April 14, 2013

Ms. Jan Sprague, Administrative Secretary
City of California City
21000 Hacienda Blvd
California City, CA 93505

Dear Ms. Sprague:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City California City Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14A) to the California Department of Finance (Finance) on February 28, 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 obligation(s):

- Item No. 13 – Promissory note between the City of California City (City) and Agency in the amount of \$250,000 for administrative costs during the January through June 2013 (ROPS III) period is not an enforceable obligation. HSC 34173 (h) allows the sponsoring entity to loan funds to the successor agency for administrative costs, enforceable obligations, or project related expenses and place the loan on a future ROPS. However, during the ROPS III period Finance approved and the County Auditor-Controller distributed \$1.1 million which included \$250,000 for administrative costs. Therefore, this item is not an enforceable obligation as the amount of administrative costs funded with tax increment is limited to the cap outlined in HSC section 34171 (b).
- Item No. 14 – Although enforceable, administrative services for the ROPS 13-14A period in the amount of \$125,000 are considered general administrative costs and have been reclassified.
- Items Nos. 15 and 16 – Federal court stipulated judgments for City loans totaling \$14.1 million. These items were previously denied in our ROPS III determination letter dated October 29, 2012. Our determination was further confirmed in our meet and confer letter dated December 18, 2012. Finance denied the items even though the judgment validates the promissory notes as contracts. The Agency contends the items are enforceable obligations because the Federal court in Fresno declared the Subdivision Deferred Improvement Fund (SDI) to be a trust, and the City is only the trustee and manages the fund. The SDI trust should therefore be viewed as a distinct entity and not as the "City." However, the promissory notes are with the City and HSC section 34171

(d) (2) states that agreements, contracts, or arrangements between the city that created the RDA and the former RDA are not enforceable unless entered into within the first two years of the date of creation or solely for the purpose of securing or repaying indebtedness obligations. Upon receiving a Finding of Completion from Finance, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item No. 17 – Low and Moderate Income Housing Fund (LMIHF) loan repayment for SERAF in the amount of \$985,000 is not allowed at this time. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the LMIHF shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14A technically falls within fiscal year 2013-14, the repayment of these loaned amounts is subject to the repayment formula outlined in HSC section 34176 (e) (6) (B).

HSC section 34176 (e) (6) (B) allows this repayment to be equal to one-half of the increase between the ROPS residual pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14 before requesting funding for this obligation. Therefore, the Agency may be able to request funding for the repayment of LMIHF loans beginning with ROPS 14-15A.

Except for item(s) denied in whole or in part as enforceable obligation(s), Finance is not objecting to the remaining item(s) 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 \$1,411,123 as summarized below:

| Approved RPTTF Distribution Amount | |
|--|---------------------|
| For the period of July through December 2013 | |
| Total RPTTF funding requested for obligations | \$ 7,601,718 |
| Minus: Six-month total for items denied or reclassified as administrative cost | |
| Item 13 | 250,000 |
| Item 14* | 125,000 |
| Item 15 | 4,898,060 |
| Item 16 | 919,410 |
| Item 17 | 123,125 |
| Total approved RPTTF for enforceable obligations | \$ 1,286,123 |
| Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost | 125,000 |
| Minus: ROPS II prior period adjustment | - |
| Total RPTTF approved for distribution: | \$ 1,411,123 |

*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. The amount of RPTTF approved in the above table includes the prior period adjustment that was self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the above table includes only the prior period adjustment that was self-reported by the Agency.

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.

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

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Mr. Tom Weil, City Manager, City of California City
Ms. Mary B. Bedard, Auditor-Controller, County of Kern
California State Controller's Office