



May 17, 2013

Mr. Art Gallucci, City Manager
City of Cerritos
18125 Bloomfield Avenue
Cerritos, CA 90703

Dear Mr. Gallucci:

Subject: Recognized Obligation Payment Schedule

This letter supersedes California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 15, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cerritos (Agency) submitted a ROPS 13-14A to Finance on March 1, 2013 for the period of July through December 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 April 30, 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 Nos. 4 and 20 – Magnolia Power Project B Series 2003 Lease Revenue Bonds totaling \$21.7 million. Finance continues to deny these items. It is our understanding a Cooperative Agreement between the City and the Agency executed on June 23, 2005 binds the Agency to the Bond Indenture. However, the agreement was not executed at the time of the issuance of the Bond Indenture.

HSC section 34171 (d) (2) states written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. Although the purpose of the Cooperative Agreement is for securing or repaying indebtedness obligations, it was not entered into at the time of issuance of the indebtedness obligations. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 43 and 45 – City loan repayments totaling \$57.5 million. Finance continues to deny these items at this time. These items were previously denied as an inclusion to the ROPS for the period January through June 2013, in the letter dated October 13, 2012, and later upheld through the Meet and Confer process in the letter dated December 18, 2012. 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, unless issued within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. These loans agreements were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding.

Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding the loans were for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item No. 44 and 46 – The Low and Moderate Income Housing Fund (LMIHF) loan repayment for Supplemental Educational Revenue Augmentation Fund in the total amount of \$7.7 million 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 deferred amounts is subject to the repayment formula outlined in HSC section 34176 (e) (6) (B). Therefore, the Agency may be able to request funding for the repayment of housing deferred set-aside loans beginning with ROPS 14-15A.
- Claimed administrative costs exceed the allowance by \$173,057. 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 \$389,645 in administrative expenses. Although \$557,702 is claimed for administrative cost, Item Nos. 11 and 26 for the Agency's auditing services totaling \$5,000 is considered an administrative expense and should be counted toward the cap. Therefore, \$173,057 of excess administrative cost is not allowed.

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. Obligations deemed not to be enforceable shall be removed from your ROPS. This is Finance's final determination related to the enforceable obligations reported on your ROPS for July through December 2013. Finance's determination is effective for this time period only and should not be conclusively relied on 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 Agency's maximum approved Redevelopment Property Tax Trust Fund (RPTTF) distribution for the reporting period is \$13,377,807 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013	
Total RPTTF funding requested for obligations	\$ 18,590,051
Minus: Six-month total for items denied or reclassified as administrative cost	
Item 4	107,125
Item 11 *	2,500
Item 20	321,376
Item 26 *	2,500
Item 43	1,444,000
Item 44	427,314
Item 45	2,300,000
Item 46	997,074
Total approved RPTTF for enforceable obligations	\$ 12,988,162
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost	389,645
Minus: ROPS II prior period adjustment	-
Total RPTTF approved for distribution:	\$ 13,377,807

*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 following 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)

Mr. Gallucci
May 17, 2013
Page 4

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 Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,



STEVE SZALAY
Local Government Consultant

cc: Ms. Denise Manoogian, Director of Administrative Services, City of Cerritos
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office