DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

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May 17, 2013

Mr. René L. Mendez, City Manager
City of Gonzales
P. O. Box 647
Gonzales, CA 93926

Dear Mr. Mendez:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS 13-14A) letter dated April 24, 2013. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Gonzales Successor Agency (Agency) submitted a ROPS 13-14A to Finance on March 13, 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 May 3, 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. 3 and 4 – Reimbursement and loan agreements with the City of Gonzales (City) totaling $11.9 million. Finance continues to deny these items. It is our understanding, the former redevelopment agency (RDA) refunded their 2006 Tax Allocation Notes (2006 Notes) by combining several funding sources for repayment of the 2006 Notes. Those sources include the following:

    - Net proceeds from RDA issued 2011 Tax Allocation Refunding Bonds in the amount of $1,667,000
    - Net proceeds from RDA issued 2011 Lease Revenue Bonds, in the amount of $3,964,468
    - City loan in the amount of $1,000,000
    - Existing RDA funds in the amount of $2,908,532

    During the Meet and Confer process, the Agency contends the reimbursement agreement and loan agreement are enforceable obligations pursuant to HSC section 34177.5 (a) (2). However, the reimbursement agreement dated June 1, 2011 reimburses the City for all costs under the 2011 Lease Revenue Bonds. In addition, the City loan agreement dated June 1, 2011 provided a portion of the repayment of the 2006 Notes. While it is evident the reimbursement and loan agreements were entered into at the time of issuance of the 2011 bonds and were for the purpose of repaying the indebtedness obligation, nevertheless, 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, maybe be deemed enforceable obligations. The agreements were not entered into at the time of issuance of the 2006 Notes and were entered into after December 31, 2010. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund funding.

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

In addition, per Finance's ROPS letter dated April 24, 2013, the following item continues to be denied and was not contested by the Agency:

- Item No. 9 – Administration of Oversight Board activities in the amount of $45,000 is considered a general administrative cost and has been reclassified. Although this reclassification increased administrative costs to $132,500, the administrative cost allowance has not been exceeded.

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 $757,115 as summarized below:

Approved RPTTF Distribution Amount For the period of July through December 2013		
Total RPTTF funding requested for obligations	$	865,025
Minus: Six-month total for items denied or reclassified as administrative cost		
Item 3		212,910
Item 4		20,000
Item 9*		7,500
Item 13		-
Total approved RPTTF for enforceable obligations	$	624,615
Plus: Allowable RPTTF distribution for ROPS 13-14A administrative cost		132,500
Minus: ROPS II prior period adjustment		-
Total RPTTF approved for distribution:	**$**	**757,115**

*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/.

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. Thomas Truszkowski, Community Development Director, City of Gonzales
Ms. Julie Aguero, Auditor Controller Analyst II, County of Monterey
California State Controller's Office