DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

April 14, 2014

Mr. Steve Hallam, Economic Development/Redevelopment Manager
City of Ceres
2720 2nd Street
Ceres, CA 95307-3292

Dear Mr. Hallam:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Ceres Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 28, 2014 for the period of July through December 2014. Finance has completed its review of your ROPS 14-15A, 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 obligations for the reasons specified:

> Item Nos. 1-3 – Debt service requests totaling $2,193,149 is partially denied. It is our understanding a portion of the request are for reserves. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the *following half* of the calendar year. Therefore, the request to fund payments due for the *first half* of the calendar year is not allowed. As a result, Finance is only approving the amounts needed to fund the debt service due in the ROPS 14-15A period. This results in denied funding of $305,000 for Item No. 1, $405,000 for Item No. 2, and $25,001 for Item No. 3.
>
> Finance notes that according to the Prior Period Adjustment Form, the Agency did not make the full requested debt service payment for Item No. 1 during the previous ROPS period of July through December 2013. Our review also indicates that the Agency used its Redevelopment Property Tax Trust Fund (RPTTF) distribution to pay administrative costs to the City related to Item No. 12. HSC section 34183 (a) (2) explicitly requires that RPTTF be used to make debt service payments first, followed by all other obligations. It is inappropriate to draw down bond reserves held with the fiscal agent when sufficient RPTTF is distributed to cover your debt service.

The administrative costs claimed are within the fiscal year administrative cap pursuant to HSC section 34171 (d). However, Finance notes the oversight board has approved an amount that appears excessive, given the number and nature of the other obligations listed in the ROPS. HSC section 34179 (i) requires the oversight board to exercise a fiduciary duty to the taxing entities. Therefore, Finance encourages the oversight board to apply adequate oversight when evaluating the administrative resources required to successfully wind-down the Agency.

Pursuant to HSC section 34186 (a), successor agencies were required to report on the ROPS 14-15A form the estimated obligations and actual payments (prior period adjustments) associated with the July through December 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment self-reported by the Agency. HSC section 34186 (a) also specifies 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 table below only includes the prior period adjustment self-reported by the Agency.

The Agency's maximum approved RPTTF distribution for the reporting period is $1,584,148 as summarized below:

Approved RPTTF Distribution For the period of July through December 2014		
Total RPTTF requested for non-administrative obligations		2,194,149
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**2,319,149**
Total RPTTF requested for non-administrative obligations		**2,194,149**
Denied Item*(s)*		
Item No. 1		(305,000)
Item No. 2		(405,000)
Item No. 3		(25,001)
		(735,001)
Total RPTTF authorized for non-administrative obligations	**$**	**1,459,148**
Total RPTTF requested for administrative obligations		**125,000**
Total RPTTF authorized for obligations	**$**	**1,584,148**
ROPS 13-14A prior period adjustment		0
Total RPTTF approved for distribution	**$**	**1,584,148**

Please refer to the ROPS 14-15A schedule that was used to calculate the approved RPTTF amount:

http://www.dof.ca.gov/redevelopment/ROPS

This is Finance's final determination related to the enforceable obligations reported on your ROPS for July 1 through December 31, 2014. This determination only applies 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 Wendy Griffe, Supervisor or Jenny DeAngelis, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Sheila Cumberland, Finance Director/Deputy City Manager, City of Ceres
Ms. Lauren Klein, Auditor-Controller, Stanislaus County
California State Controller's Office