



April 4, 2014

Mr. Matt Michaelis, Administrative Services Manager
City of Marysville
526 C Street
Marysville, CA 95901

Dear Mr. Michaelis:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Marysville Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to the California Department of Finance (Finance) on February 26, 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 does not qualify as enforceable obligations for the reasons specified:

- Item No. 2 – City of Marysville (City) Loan in the amount of \$102,223. According to the County Auditor-Controller's (CAC) report, the ROPS residual pass-through amount distributed to the taxing entities for Fiscal Year (FY) 2012-13 and 2013-14 are \$0 and \$98,399, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for FY 2014-15 is \$49,200. Therefore, of the \$151,423 requested, \$102,223 (\$151,423 - \$49,200) of excess loan repayment is not eligible for funding on this ROPS.

Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from loan origination is not to exceed the interest rate earned by funds deposited in the Local Agency Investment Fund (LAIF). The Agency's loan repayment schedule includes prior calculated interest payments, the LAIF rate for months prior to the Agency receiving Oversight Board approval, as well as the interest calculated was done so on a monthly basis whereas the original loan agreement states interest would be calculated on an annual basis. Thus, the accumulated interest on the loan should be recalculated using the quarterly LAIF interest rate at the time when the Agency's Oversight Board made the finding the loan was for legitimate redevelopment purposes.

Since the amount requested for ROPS 14-15A does not exceed the repayment formula outlined in HSC section 34191.4 (b) (2) (A), Finance is approving the amount requested. However, the approved amount of \$49,200 should only be applied to repayment of principal for Item No. 2.

In addition, the Agency's repayment schedule for this loan states an outstanding principal amount of \$169,466. Finance has recalculated the total principal outstanding to be approximately \$142,800 as loan repayments made in FY 10-11 and 11-12, included inappropriate interest payments totaling \$26,666. Finance applied these interest payments to the outstanding principal amount, thus reduced the Agency's stated outstanding loan balance by \$26,666.

- Item No. 3 – City Loan in the amount of \$42,875 is not allowed at this time. According to the CAC's report, the ROPS residual pass-through amount distributed to the taxing entities for FY 2012-13 and 2013-14 are \$0 and \$98,399, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for FY 2014-15 is \$49,200. Therefore, of the \$42,875 requested, \$42,875 of excess loan repayment is not eligible for funding on this ROPS. The Agency may be eligible for additional funding beginning ROPS 15-16A.

In addition, the outstanding balance for the City Loan is overstated. Pursuant to HSC section 34191.4 (b) (2), the recalculation of the accumulated interest from loan origination is not to exceed the interest rate earned by funds deposited in the LAIF. The Agency's loan repayment schedule employs an interest rate of three percent. Thus, the accumulated interest on the loan should be recalculated using the quarterly LAIF interest rate at the time when the Agency's Oversight Board makes a finding the loan was for legitimate redevelopment purposes.

- 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 on 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.

During our review of the Other Funds and Accounts Due Diligence Review, which may have included obtaining financial records, Finance noted the Agency possesses excess reserve funds that should be used prior to requesting Redevelopment Property Tax Trust Fund (RPTTF). 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 provided financial records that displayed available Reserve Balances in excess of the required 10 percent of the unpaid principal component.

Therefore, the funding source for the following item has been reclassified to Reserve Balances and in the amount specified below:

Item No. 1– 2001 Series A Associated Bay Area Governments (ABAG) Financing in the amount of \$10,923. Finance reclassified the requested \$10,923 from non-admin RPTTF to Reserve Balances as there are excess reserves with the fiscal agent that are not encumbered by any trustee agreements.

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 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.

Except for the items denied in whole or in part as enforceable obligations or for the item that has been reclassified, Finance is not objecting to the remaining items listed on your ROPS 14-15A. If you disagree with the determination with respect to any items on your ROPS 14-15A, 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 RPTTF distribution for the reporting period is \$212,453 as summarized below:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	205,221
Total RPTTF requested for administrative obligations	163,253
Total RPTTF requested for obligations	\$ 368,474
Total RPTTF requested for non-administrative obligations	
<u>Denied Items</u>	
Item No. 2	(102,223)
Item No. 3	(42,875)
	(145,098)
<u>Reclassified Item</u>	
Item No. 1	(10,923)
Total RPTTF authorized for non-administrative obligations	\$ 49,200
Total RPTTF authorized for administrative obligations	\$ 163,253
Total RPTTF authorized for obligations	\$ 212,453
ROPS 13-14A prior period adjustment	-
Total RPTTF approved for distribution	\$ 212,453

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. During the ROPS 14-15A 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 14-15A 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 14-15B.

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

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

Absent a Meet and Confer, 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. Billie Fangman, City Clerk, City of Marysville
Mr. C. Richard Eberle, Auditor, Yuba County
California State Controller's Office