

May 16, 2014

Ms. Suzy Kim, Consultant, RSG Inc.  
City of Oroville  
309 W. Fourth St  
Santa Ana, CA 92701

Dear Ms. Kim:

Subject: Recognized Obligation Payment Schedule

This letter supersedes the California Department of Finance's (Finance) Recognized Obligation Payment Schedule (ROPS) letter dated April 14, 2014. Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Oroville Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 14-15A) to Finance on February 28, 2014, for the period of July through December 2014. Finance issued a ROPS determination letter on April 14, 2014. 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 5, 2014.

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 item being disputed.

- Item No. 21 – City of Oroville (City) Loan in the amount of \$1,821,860. Finance no longer denies this item; however, pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount for fiscal year 2014-15 is \$0. Finance initially denied this item as 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. This shall remain the case until and unless a Finding of Completion is issued by Finance and the oversight board makes a finding that the loan was for legitimate redevelopment purposes. During the Meet and Confer process, Finance approved the Oversight Board's Resolution No. 01-14 finding that the city loan was for redevelopment purposes and issued a Finding of Completion on May 6, 2014.

According to the County Auditor-Controller's (CAC) report, the ROPS residual pass-through amount distributed to the taxing entities for fiscal years 2012-13 and 2013-14 are \$5,599,724 and \$3,078,385, respectively. Pursuant to the repayment formula outlined in HSC section 34191.4 (b) (2) (A), the maximum repayment amount authorized for fiscal year 2014-15 is \$0. Therefore, the \$586,287 requested is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding during this ROPS period. The Agency may be eligible for funding beginning in ROPS 15-16A.

During the Meet and Confer process, the Agency requested that the RPTTF residual calculations for the 2012-13 base year be adjusted by reclassifying the Agency's prior expenditures from Reserve Balances to RPTTF. The Agency contends that they will never have enough incremental growth to repay the City Loan because the Agency used Reserve Balances to pay for the majority of its obligations in fiscal year 2012-13, which maximized the amount of residual RPTTF paid out to the affected taxing entities. However, statute does not allow Finance to adjust the residuals reported by the CAC nor does it allow Finance to reclassify prior expenditures to a funding source that was not used.

Additionally, HSC section 34191.4 requires the recalculation of the accumulated interest at a rate not to exceed the interest rate earned by funds deposited in the Local Agency Investment Fund (LAIF) at the time the Oversight Board finds that the loan was for legitimate redevelopment purposes and is deemed an enforceable obligation. Therefore, the Agency should recalculate the interest using the LAIF interest rate at the time the Agency's Oversight Board made the finding the loan was for legitimate redevelopment purposes and reflect the reduction to the loan's total outstanding balance in subsequent ROPS submittals.

In addition, per Finance's letter dated April 14, 2014, we continue to deny the following item not contested by the Agency during the Meet and Confer:

- Item No. 22 – Housing Successor Entity Administrative Cost Allowance in the amount of \$2,400,000. Pursuant to HSC section 34171 (p), the housing entity administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the RDA elected to not assume the housing functions and that the housing functions were transferred to a local housing authority in the territorial jurisdiction of the RDA. Here, however, the City of Oroville (City) elected to be the housing entity to the RDA and retained the housing assets by submitting the housing asset transfer form to Finance on August 1, 2012. Therefore, the City is not eligible for the housing entity administrative costs allowance of \$150,000.

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. 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. The amount of RPTTF approved in the table below includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

Except for the items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 14-15A. The Agency's maximum approved RPTTF distribution for the reporting period is \$1,612,238 as summarized in the following table:

<b>Approved RPTTF Distribution</b>	
<b>For the period of July through December 2014</b>	
Total RPTTF requested for non-administrative obligations	1,989,078
Total RPTTF requested for administrative obligations	400,000
<b>Total RPTTF requested for obligations</b>	<b>\$ 2,389,078</b>
<b>Total RPTTF requested for non-administrative obligations</b>	<b>1,989,078</b>
<u>Denied Item</u>	
Item No. 21	(586,287)
	(586,287)
<b>Total RPTTF authorized for non-administrative obligations</b>	<b>\$ 1,402,791</b>
<b>Total RPTTF requested for administrative obligations</b>	<b>400,000</b>
<u>Denied Item</u>	
Item No. 22	(150,000)
	(150,000)
<b>Total RPTTF authorized for administrative obligations</b>	<b>\$ 250,000</b>
<b>Total RPTTF authorized for obligations</b>	<b>\$ 1,652,791</b>
ROPS 13-14A prior period adjustment	(40,553)
<b>Total RPTTF approved for distribution</b>	<b>\$ 1,612,238</b>

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 cash 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 cash balances. If it is determined the Agency possesses cash balances that are available to pay approved obligations, the Agency should request the use of these cash 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>

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 Evelyn Suess, Dispute Resolution Supervisor, or Mary Halterman, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD  
Assistant Program Budget Manager

cc: Mr. Rick Farley, Business Assistance Coordinator, City of Oroville  
Ms. Maria Solis, Auditor - Accountant, Butte County  
California State Controller's Office