



May 16, 2014

Ms. Marie Lorenzi, Senior Accountant
City of Turlock
156 South Broadway, Suite 110
Turlock, CA 95380

Dear Ms. Lorenzi:

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 Turlock 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, as further discussed below:

- Item Nos. 1 through 3 – Reserve Debt Service in the amount of \$1,156,648 requesting use of Redevelopment Property Tax (RPTTF). Finance continues to deny this item at this time. The amount represents the interest payments on debt service due in the January through June 2015 (ROPS 14-15B) period. HSC section 34171 (d) (1) (A) allows successor agencies to hold a reserve for debt service payments when required by the bond indenture or 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. Based on our review, the bond indenture does not require the requested reserve, and a request to fund payments due for the *first half* of the calendar year is not allowed. As such, the Agency is not permitted to receive RPTTF for debt service payments due in ROPS 14-15B at this time.
- Item Nos. 6 through 23 – Public Safety Facility Contracts in the amount of \$1,721,350. Finance continues to deny these items. We note that on December 17, 2013 Finance denied the overarching Development and Disposition Agreement associated with these items. Finance previously determined that insufficient documentation was provided to support the amounts claimed for ROPS 14-15A.

During the meet and confer, the Agency claimed that these contracts and change orders do not expire until the work is completed and that some of the costs are related to final

retention payments. Our review indicates that the Agency approved several change orders to the construction contract after June 27, 2011, increasing the performance time and, in most cases, the amount of the contracts. HSC section 34163 (c) prohibits a redevelopment agency (RDA) from amending or modifying existing agreements, obligations, or commitments with any entity for any purpose after June 27, 2011. Therefore, these items are not approved for RPTTF funding.

HSC section 34177 (a) (3) states that only those payments listed in the ROPS may be made by the Agency, from the funds specified in the ROPS. Although the HSC does not permit the Agency to make payments that exceed the amounts authorized by Finance, we note that the Agency's expenditures have inappropriately exceeded the Finance authorization for Reserve Balances. Therefore, Finance is increasing the Agency's authorization for the ROPS 14-15A period to ensure that authorization is consistent with expenditures for the following approved enforceable obligations:

- Item No. 1 – 1999 Tax Increment Bonds in the amount of \$183,046
- Item No. 2 – 2006 Tax Increment Bonds in the amount of \$429,840

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that should be used prior to requesting RPTTF. Pursuant to HSC section 34177 (I) (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 Other Fund Balances totaling \$517,407. Therefore, the funding source for the following items have been reclassified to Reserve Balances in the amount specified below:

- Item No. 40 – Avena Bella DDA in the amount of \$400,000. The Agency requests \$400,000 of RPTTF; however, Finance is reclassifying \$400,000 to Other Fund Balances. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$400,000 in available Other Fund Balances. Therefore, Finance is approving RPTTF in the amount of \$0 and the use of Other Fund Balances in the amount of \$400,000, totaling \$400,000.
- Item No. 41 – Economic Development Project Funding Agreement in the amount of \$127,045. The Agency requests \$127,045 of RPTTF; however, Finance is reclassifying \$117,407 to Other Fund Balances. This item is an enforceable obligation for the ROPS 14-15A period. However, the obligation does not require payment from property tax revenues and the Agency has \$117,407 in available Other Fund Balances. Therefore, Finance is approving RPTTF in the amount of \$9,638 and the use of Other Fund Balances in the amount of \$117,407, totaling \$127,045.

During the meet and confer, the Agency claimed these funds are not available. However, our review indicates that during the July through December 2013 (ROPS 13-14A) period, the Agency expended Other Funds on items that were approved for no funding or approved for an amount less than expended. More specifically, the Agency expended Other Funds on Items 6, 7, 8, and 13 when no funding was approved and on Items 9, 11, and 22 when a lesser amount was approved. Because the Agency did not have the authority to expend these funds in the ROPS 13-14A period and because these items have been deemed not enforceable obligations,

Finance has determined these funds should be available to pay for items approved as enforceable obligations.

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.

Except for items denied in whole or in part as enforceable obligations or for items that have been reclassified, 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 \$187,638 as summarized in the following table:

Approved RPTTF Distribution	
For the period of July through December 2014	
Total RPTTF requested for non-administrative obligations	3,468,043
Total RPTTF requested for administrative obligations	115,000
Total RPTTF requested for obligations	\$ 3,583,043
Total RPTTF requested for non-administrative obligations	3,468,043
<u>Denied Items</u>	
Item No. 1	(69,293)
Item No. 2	(558,308)
Item No. 3	(529,047)
Item No. 6	(5,000)
Item No. 7	(5,000)
Item No. 9	(145,250)
Item No. 10	(313,150)
Item No. 11	(26,500)
Item No. 12	(68,050)
Item No. 13	(4,700)
Item No. 15	(251,750)
Item No. 16	(61,150)
Item No. 17	(17,300)
Item No. 18	(29,800)
Item No. 19	(251,200)
Item No. 20	(425,900)
Item No. 21	(91,700)
Item No. 23	(24,900)
	(2,877,998)
Total RPTTF for non-administrative obligations	590,045
<u>Cash Balances - Item reclassified to Reserves</u>	
Item No. 40	(400,000)
Item No. 41	(117,407)
	(517,407)
Total RPTTF authorized for non-administrative obligations	\$ 72,638
Total RPTTF requested for administrative obligations	115,000
Total RPTTF authorized for administrative obligations	\$ 115,000
Total RPTTF authorized for obligations	\$ 187,638
ROPS 13-14A prior period adjustment	0
Total RPTTF approved for distribution	\$ 187,638

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>

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 Danielle Brandon, Analyst, at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Kellie Weaver, City Clerk, City of Turlock
Ms. Lauren Klein, Auditor-Controller, Stanislaus County
California State Controller's Office