



April 17, 2012

Jennifer Hennessy, Finance Director  
City of Chico  
P.O. Box 3420  
Chico, CA 95927

Dear Ms. Hennessy:

Pursuant to Health and Safety Code (HSC) section 34177 (l) (2) (C), the City of Chico (City) Successor Agency submitted a Recognized Obligation Payment Schedule (ROPS) to the California Department of Finance (Finance) on April 4, 2012. Finance staff contacted you for clarification of items listed in the ROPS.

HSC section 34171 (d) lists enforceable obligations (EO) characteristics. Based on a sample of line items reviewed and application of the law, the following do not qualify as EOs:

- Item No. 8 and No. 24 for \$23,000 administrative expenses is not an EO. HSC section 34171 (b) limits the 2011-12 administrative cost allowance to five percent of the property tax allocated to the successor agency or \$250,000, whichever is greater. Five percent of the property tax allocated to the City of Chico Successor Agency in 2011-12 equated to approximately \$557,130. Therefore, \$23,000 of the claimed \$580,130 is unallowed.
- Item No. 22 for Housing Portfolio Oversight costs of \$40,050. Section HSC section 34176 (a) states that if a city or county that authorized the creation of an RDA elects to retain the responsibility for performing housing functions, all rights, powers, duties, and obligations shall be transferred to the city or county. Further, section 34176 (c) states that the housing successor may enforce affordability covenants. Monitoring affordability covenants on housing assets is an optional obligation of the housing successor, not of the Successor Agency for the RDA. Therefore, this is not an enforceable obligation.
- Item No. 26 for unspent bond proceeds of \$5.9 million is not an EO. Section 34177(i) states "bond proceeds shall be used for the purposes for which bonds were sold unless the purposes can no longer be achieved, in which case, the proceeds may be used to defease the bonds." It is not the intent of ABx1 26 to allow successor agencies to enter into new contracts, unless those contracts are specifically required pursuant to the terms of another pre-existing contract that meets the requirements of ABx1 26, or are specifically required by bond indentures. There are no third party expenditure contracts to support the obligation.

As authorized by HSC section 34179 (h), Finance is returning your ROPS for your reconsideration. This action will cause the specific ROPS items noted above to be ineffective until Finance approval. Furthermore, items listed on future ROPS will be subject to review and may be denied as EOs.

If you believe we have reached this conclusion in error, please provide further evidence that the items questioned above meet the definition of an EO.

Please direct any inquiries to Robert Scott, Supervisor or Kylie Le, Lead Analyst at (916) 322-2985.

Sincerely,

A handwritten signature in black ink that reads "Mark Hill". The signature is written in a cursive style with a large initial "M" and a distinct "H".

MARK HILL  
Program Budget Manager

cc: Ms. Maria Solis, Auditor-Accountant, County of Butte  
Ms. Veda Musler, Manager of Property Tax, County of Butte