



January 12, 2015

REVISED

Ms. Jan Sprague, Administrative Secretary
City of California City
21000 Hacienda Boulevard
California City, CA 93505

Dear Ms. Sprague:

Subject: Other Funds and Accounts Due Diligence Review

This letter supersedes the California Department of Finance's (Finance) original Other Funds and Accounts (OFA) Due Diligence Review (DDR) determination letter dated June 27, 2013. A revision was necessary to allow for the retention of Redevelopment Property Tax Trust Fund (RPTTF) the Kern County Auditor-Controller distributed to the Agency for the July 1, 2012 through December 31, 2012 Recognized Obligation Payment Schedule (ROPS II) period. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of California City Successor Agency (Agency) submitted an oversight board approved OFA DDR to Finance on March 6, 2013. The purpose of the review was to determine the amount of cash and cash equivalents available for distribution to the affected taxing entities. Finance issued an OFA DDR determination letter on May 21, 2013. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer session was held on June 12, 2013 and Finance issued its Meet and Confer OFA DDR determination letter on June 27, 2013.

Based on a review of additional information and documentation provided to Finance during the Meet and Confer process, Finance has completed its review of those specific items being disputed. Specifically, the following adjustments were made:

- Cash balances legally restricted in the amount of \$2 million continues to be partially denied. Included in this amount is \$695,722 related to the repayment of two loans between the City of California City (City) and the former Redevelopment Agency (RDA) of the City of California City. Finance denied the amount as it is related to a Recognized Obligation Payment Schedule (ROPS) item which was previously denied as an enforceable obligation on the January through June 2013 and July through December 2013 ROPS (e.g. agreements between the City and the former RDA are not enforceable obligations). The Agency claims that because these funds are owed to the City's Sub-Division Deferred Improvement Funds (SDI Funds) pursuant to a promissory note between the City and the former RDA and the note received a federal court validation, the unencumbered OFA balances must be used to immediately repay this debt. Specifically, the Agency contends that the loans are enforceable obligations because a federal court declared the SDI Fund to be a trust; the City is only the trustee responsible for managing the trust and should therefore be viewed as a distinct entity and not the City.

However, the judgment does not validate the loans/contracts and even if it did, the judgment does not exempt the contracts from HSC section 34172 (d)(2)'s determination that these contracts are not enforceable obligations as they are agreements between the City that created the former RDA and the RDA. Finance also notes that although the note/loan included a repayment schedule, the facts and documentation presented during the Meet and Confer did not show that any repayment occurred according to the repayment schedule. As such, the request to restrict \$695,722 in OFA balances continues to be denied and accordingly, the OFA balance available for distribution to the taxing entities is increased by \$695,722.

Pursuant to HSC section 34191.4, these loans may become enforceable once the Agency receives a Finding of Completion from Finance, and the loan repayments are placed and approved on future ROPS.

- Retention of current balances totaling \$1.2 million to satisfy the ROPS periods covering fiscal year 2012-13 continues to be denied. The Agency is requesting to retain the amount as related to the SDI Fund loans, as discussed in the previous bullet. Because this item is denied as provided in the previous bullet the request to retain OFA balances is not permitted.

In addition, the Agency provided a cash flow analysis showing a negative cash flow starting in fiscal year 2014-15; however, the cash flow analysis includes an annual repayment of the SDI Fund loans in the amount of \$1,802,726 each fiscal year. Finance recalculated the cash flow analysis excluding the denied obligation and in our recalculation, the Agency shows a positive cash flow. Therefore, there is no need to retain OFA balances in the amount of \$1.2 million.

Finance notes that in order for these loans to be made enforceable, the Agency must first receive a Finding of Completion from Finance. Second, the oversight board must make a finding that the SDI Fund loans were for legitimate redevelopment purposes. Once these occur, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods. HSC section 34176 (e) (6) (B) specifies the repayment of these SDI Fund loans is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A).

Should the Agency experience a cash flow shortage when obligations are due, HSC provides successor agencies with various methods to address short term cash flow issues. These may include requesting a loan from the city pursuant to HSC section 34173 (h), or requesting the accumulation of reserves on the ROPS when a future balloon or uneven payment is expected. The Agency should seek counsel from their oversight board to determine the solution most appropriate for their situation. Since the Agency has failed to identify a legitimate cash flow shortage as well as alternatives to address short term cash flow shortages exist, it is not necessary for Agency to retain the requested OFA balances.

- Finance notes the Agency submitted a revised OFA DDR through Oversight Board (OB) Resolution No. 10-02-0027 dated October 2, 2014, more than one year after the date of Finance's previous Meet and Confer OFA determination letter. The Agency contends the original OFA DDR failed to include the retention of RPTTF the Kern County Auditor-Controller distributed to the Agency for the ROPS II period, in the amount of \$1,043,359.

After review of the original OFA DDR and through discussion with the Agency, Finance agrees that the ROPS II RPTTF distribution of \$1,043,359 should be allowed to be retained by the Agency for the payment of enforceable obligations.

The Agency's OFA balance available for distribution to the affected taxing entities is \$889,420 (see table below).

OFA Balances Available For Distribution To Taxing Entities	
Available Balance per DDR:	\$ -
Finance Adjustments	
Add:	
Requested restricted balance not supported:	695,722
Requested retained balance not supported:	1,237,057
Subtract:	
Funds to be retained for ROPS II obligations:	1,043,359
Total OFA available to be distributed:	\$ 889,420

This is Finance's final determination of the OFA balances available for distribution to the taxing entities. HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient. Upon submission of payment, it is requested you provide proof of payment to Finance within five business days.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity, HSC 34179.6 (h) (1) (B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

Please direct inquiries to Evelyn Suess, Dispute Resolution Supervisor, or Derk Symons, Analyst, at (916) 445-1546.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Justyn Howard', with a large circular flourish on the left side.

JUSTYN HOWARD
Acting Program Budget Manager

cc: Mr. Tom Weil, City Manager, City of California City
Ms. Mary B. Bedard, Auditor-Controller, Kern County
California State Controller's Office