

November 6, 2013

Mr. Art Gallucci, City Manager
City of Cerritos
18125 Bloomfield Avenue
Cerritos, CA 90703

Dear Mr. Gallucci:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cerritos Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 27, 2013 for the period of January through June 2014. Finance has completed its review of your ROPS 13-14B, 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 do not qualify as enforceable obligations for the reasons specified:

- Item Nos. 4 and 20 – Magnolia Power Project B Series 2003 Lease Revenue Bonds Payments in the amount of \$21,666,406. These two items were previously denied by Finance in our ROPS 13-14A letter dated April 15, 2013 and later upheld in our Meet and Confer letter dated May 17, 2013. It is our understanding the Agency executed a Cooperative Agreement with the City on June 23, 2005 which binds the Agency to the Bond Indenture. However, the agreement was not executed at the time of the issuance of the Bond Indenture. The Agency resubmitted these items pending on the ruling of future litigation on the matter.

HSC section 34171 (d) (2) states written agreements entered into at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations. Although the purpose of the Cooperative Agreement is for securing or repaying indebtedness obligations, it was not entered into at the time of issuance of the indebtedness obligations. Therefore, these items are not enforceable obligations and are not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item Nos. 43 and 45 – City loan repayments in the amount of \$57,523,584. These items were previously denied in previous ROPS III and 13-14A determination letters, including the ROPS III and 13-14A Meet and Confer determination letters. 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, unless issued

within two years of the RDA's creation date or for issuance of indebtedness to third-party investors or bondholders. These loans agreements were issued after the first two years of the former RDA's creation and are not associated with the issuance of debt. Although the Agency resubmitted these items pending on the ruling of future litigation on the matter, these items are not enforceable obligations and are not eligible for RPTTF funding at this time.

Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding the loans were for legitimate redevelopment purposes, HSC section 34191.4 (b) may cause these items to be enforceable in future ROPS periods.

- Item Nos. 44 and 46 – The Low and Moderate Income Housing Fund (LMIHF) loan repayment for SERAF in the amount of \$7,670,482. These two items were previously denied by Finance in our ROPS 13-14A letter dated April 15, 2013 and later upheld in our Meet and Confer letter dated May 17, 2013. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the LMIHF shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14A technically falls within fiscal year 2013-14, the repayment of these deferred amounts is subject to the repayment formula outlined in HSC section 34176 (e) (6) (B). Agency resubmitted these items pending on the ruling of future litigation on the matter. At this time, Finance continues to deny these items.
- Claimed administrative costs exceed the allowance by \$167,913. HSC section 34171 (b) limits the fiscal year 2013-14 administrative expenses to three percent of property tax allocated to the Agency or \$250,000, whichever is greater. The Los Angeles Auditor-Controller's Office distributed \$389,645, thus leaving a balance of \$134,173 available for the January through June, 2014 period. Although \$302,086 is claimed for administrative costs, only \$134,173 is available pursuant to the cap. Therefore, \$167,913 of excess administrative cost is not allowed.

Pursuant to HSC Section 34186 (a), successor agencies were required to report on the ROPS 13-14B form the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. HSC Section 34186 (a) also specifies that the prior period adjustments self-reported by successor agencies are subject to audit by the county auditor-controller (CAC) and the State Controller. The amount of RPTTF approved in the below table includes the prior period adjustment resulting from the CAC's audit of the Agency's self-reported prior period adjustment.

The Agency's maximum approved RPTTF distribution for the reporting period is \$3,723,443 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	10,069,534
Total RPTTF requested for administrative obligations	302,086
Total RPTTF requested for obligations	\$ 10,371,620
Total RPTTF requested for non-administrative obligations	10,069,534
<u>Denied Items</u>	
Item No. 4	(107,175)
Item No. 20	(321,524)
Item No. 43	(1,444,000)
Item No. 44	(427,314)
Item No. 45	(2,300,000)
Item No. 46	(997,074)
	<u>(5,597,087)</u>
Total RPTTF approved for non-administrative obligations	4,472,447
Total RPTTF requested for administrative obligations	302,086
Total RPTTF for administrative obligations	302,086
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	134,173
Total RPTTF approved for obligations	4,606,620
ROPS III prior period adjustment	(883,177)
Total RPTTF approved for distribution	\$ 3,723,443
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	12,988,162
Total RPTTF for 13-14B (January through June 2014)	4,472,447
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2013-14	17,460,609
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or \$250,000)	523,818
Administrative allowance for 13-14A (July through December 2013)	389,645
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	134,173

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. Beginning with the ROPS 13-14B period, Finance required successor agencies to identify fund balances for various types of funds in its possession. During our ROPS 13-14B 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 13-14B 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 14-15A.

Please refer to the ROPS 13-14B schedule that was used to calculate the approved RPTTF amount:

[http://www.dof.ca.gov/redevelopment/ROPS/ROPS 13-14B Forms by Successor Agency/](http://www.dof.ca.gov/redevelopment/ROPS/ROPS%2013-14B%20Forms%20by%20Successor%20Agency/).

Except for items denied in whole or in part as enforceable obligations, Finance is not objecting to the remaining items listed on your ROPS 13-14B. This determination applies only to items where funding was requested for the six month period. If you disagree with the determination with respect to any items on your ROPS 13-14B, 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/

Absent a Meet and Confer, this is Finance's final determination related to the enforceable obligations reported on your ROPS for January 1 through June 30, 2014. This determination applies only 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 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 Kylie Le, Supervisor or Hugo Lopez, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Ms. Denise Manoogian, Director of Administrative Services, City of Cerritos
Ms. Kristina Burns, Manager, Los Angeles County Department of Auditor-Controller
California State Controller's Office