DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. • GOVERNOR
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October 30, 2013

Mr. John B. Bahorski, City Manager
City of Cypress
5275 Orange Avenue
Cypress, CA 90630

Dear Mr. Bahorski:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Cypress Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 18, 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 does not qualify as an enforceable obligation for the reasons specified:

- Item No. 2 – Repayment Agreement between the City of Cypress (City) and the Agency in the amount of $25,318,106, entered into on March 23, 2009, is not an enforceable obligation at this time. It is our understanding this loan was issued to finance various redevelopment projects due to insufficient tax increment. 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. This loan was issued after the first two years of the former RDA's creation and is not associated with the issuance of debt. Therefore, this item is not an enforceable obligation and is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding on this ROPS.

  Upon receiving a Finding of Completion from Finance and after the oversight board makes a finding the loan was for legitimate redevelopment purposes, HSC 34191.4 (b) may cause this item to be enforceable in future ROPS periods.

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 (l) (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.

Therefore, the funding source for the following item is being reclassified to Other Funds and in the amount specified below:
Item No. 3 – Employee Costs in the amount of $1,458. The Agency requested $37,798 from RPTTF; however, Finance is reclassifying $1,458 to Other Funds. This item was determined to be an enforceable obligation for the ROPS 13-14B period. However, the obligation does not require payment from property tax revenues and the Agency has $1,458 in Other Funds. Therefore, Finance is approving RPTTF in the amount of $36,340 and the use of Other Funds in the amount of $1,458, totaling $37,798 for this item.

Pursuant to HSC Section 34186 (a), successor agencies were required to report the estimated obligations and actual payments (prior period adjustments) associated with the January through June 2013 period. The amount of RPTTF approved in the table below includes the prior period adjustment that was self-reported by the Agency. 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. Any proposed CAC adjustments were not received in time for inclusion in this letter. Therefore, the amount of RPTTF approved in the table below includes only the prior period adjustment that was self-reported by the Agency.

Except for the item denied in whole or in part as enforceable obligation or for the item that have been reclassified, Finance is not objecting to the remaining items listed on your ROPS 13-14B. 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/

The Agency's maximum approved RPTTF distribution for the reporting period is $1,818,387 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		6,021,857
Total RPTTF requested for administrative obligations		48,469
Total RPTTF requested for obligations	**$**	**6,070,326**
Total RPTTF requested for non-administrative obligations		**6,021,857**
Denied Items		
Item No. 2		(4,202,106)
Total RPTTF approved for non-administrative obligations		**1,819,751**
Total RPTTF requested for administrative obligations		**48,469**
Reclassified Items		
Item No. 3		(1,458)
Total RPTTF approved for administrative obligations		**47,011**
Total RPTTF approved for obligations		**1,866,762**
ROPS III prior period adjustment		(48,375)
Total RPTTF approved for distribution	**$**	**1,818,387**

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/.

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 Nichelle Thomas, Supervisor or Alex Watt, Lead Analyst at (916) 445-1546.

Sincerely,

JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Matt Burton, Assistant Director of Finance & Administrative Services, City of Cypress
Mr. Frank Davies, Property Tax Manager, Orange County
California State Controller's Office