



November 8, 2013

Ms. Marcela Piedra, Director of Economic Development
City of El Centro
1249 Main Street
El Centro, CA 92243

Dear Ms. Piedra:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of El Centro 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. 3, 4 and 5 – 2011 Revenue Bonds, Series A, B, C totaling \$89,363,919. Our review of the bond documentation provided by the Agency indicates the bonds were sold by the former Redevelopment Agency (RDA) to the City of El Centro (City). HSC section 34171 (d)(2) states that “enforceable obligation’ does not include any agreements, contracts, or arrangements between the city ... that created the redevelopment agency and the former redevelopment agency.” The bond indentures for the 2011 Revenue Bonds, and obligations for payment of debt service, are obligations between the RDA and the city that created the RDA and are therefore not enforceable obligations. Therefore, repayments to the City as the bondholder are not enforceable obligations and not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Our review of the Report of Fund Balances form noted that Agency has been expending bond proceeds without authorization from Finance as note below:

- The Agency reported a balance of \$8,998,804 for Bonds issued on or before December 31, 2010 on the Fund Balances Form. Our review noted that the Agency reported \$14,077,397 of unspent bond proceeds on their Other Funds and Accounts (OFA) Due Diligence Review (DDR) as of June 30, 2012. Furthermore, actual bond expenditures for the July through December 2012 Recognized Obligation Payment Schedule (ROPS II) as reported in the July through December 2013 ROPS (ROPS 13-14A) indicated zero bond proceeds were spent.

Finance contacted the Agency regarding the discrepancy in the bond proceeds balance and received an explanation there were expenditures of bond proceeds during the

ROPS II period; however, the Agency did not list the items on the ROPS. Due to the expenditures, the balance of \$14,077,397 was drawn down to the reported balance of \$8,998,804. Finance denied the use of bond proceeds for all bond funded items for the January through June 2012 ROPS (ROPS I) in a letter dated April 24, 2012 because there was no enforceable obligation requiring the expenditure of the bond proceeds. Since then the Agency has not placed any bond funded items on subsequent ROPS and has been spending bond proceeds without authorization from Finance. HSC section 34177 (a) (3) states that only those payments listed in the ROPS may be made by the successor agency from funds specified on the ROPS. The Agency is required to place all expenditures on the ROPS, including excess bond proceeds. Since the Agency received its Finding of Completion on April 26, 2013 the use of pre-2011 bond proceeds may be allowed in accordance to HSC section 34191.4 (c).

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 items denied in whole or in part as enforceable obligations or for the items 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 \$771,270 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	2,062,985
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 2,187,985
Total RPTTF requested for non-administrative obligations	2,062,985
<u>Denied Items</u>	
Item No. 3	(213,009)
Item No. 4	(925,000)
Item No. 5	(278,706)
	<u>(1,416,715)</u>
Total RPTTF approved for non-administrative obligations	646,270
Total RPTTF approved for administrative obligations	125,000
Total RPTTF approved for obligations	771,270
Self-Reported ROPS III prior period adjustment	-
Total RPTTF approved for distribution	\$ 771,270

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/).

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 Beliz Chappuie, Supervisor or Todd Vermillion, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Ruben Duran, City Manager, City of El Centro
Ms. Ann McDonald, Property Tax Manager, Imperial County
California State Controller's Office