DEPARTMENT OF FINANCE

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November 7, 2013

Mr. Paul Rodrigues, Director of Economic Development and Housing
City of Eureka
531 K Street
Eureka, CA 95501

Dear Mr. Rodrigues:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Eureka Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 30, 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 No. 5 – Payment for a Lease Revenue Bond with the City of Eureka (City) totaling $115,462. This item has been previously denied by Finance and upheld through the ROPS 13-14A Meet and Confer Process. Documentation provided by the Agency for the Municipal Harbor Improvements 1973 Revenue Bonds (Bonds) state the Bonds were issued by the City and the loan agreement terms related to bonds do not demonstrate that it is an obligation of the Agency. Therefore, Finance continues to deny this item for Redevelopment Property Tax Trust Fund (RPTTF) funding.

- Item No. 12 – City loan in the amount of $5,146,773. The Agency received a Finding of Completion on April 12, 2013. As such, the Agency may place loan agreements between the former redevelopment agency and sponsoring entity on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes per HSC section 34191.4 (b) (1). However, 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 13-14B falls within fiscal year 2013-14, the repayment of these City loans is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A).

  HSC section 34191.4 (b) (2) (A) allows this repayment to be equal to one-half of the increase between the ROPS residual amounts distributed to the taxing entities in that fiscal year and the ROPS residual amounts distributed to the taxing entities in the 2012-13 base year. Since the formula does not allow for estimates, the Agency must wait until the ROPS residual pass-through distributions are known for fiscal year 2013-14

before requesting funding for this obligation. Therefore, this item is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding at this time.

- Item No. 13 – Loan for the Supplemental Education Revenue Augmentation Fund (SERAF) in the amount of $594,152. HSC section 34176 (e) (6) (B) states that loan or deferral repayments shall not be made prior to fiscal year 2013-14. While ROPS 13-14B falls within fiscal year 2013-14, the repayment of these loans is subject to the repayment formula outlined in HSC section 34191.4 (b) (2) (A). Therefore, this item in not eligible for RPTTF funding at this time.

- Administrative costs claimed for RPTTF exceed the allowance by $54,250. HSC section 34171 (b) limits the 2013-14 administrative expenses to three percent of property tax allocated to the Agency or $250,000, whichever is greater.

Allowable administrative cost amount for fiscal year 2013-14	$250,000
Administrative costs distributed for July through December 2013	$179,250
Administrative costs claimed for January through June 2014	$125,000
Overage	$ 54,250

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 (PPA) that was self-reported by the Agency and the following adjustment that was made by Finance.

- PPA Form, Item No. 15 – Audit Required by AB 1484 for $20,000. The Agency was approved for and received $20,000 of RPTTF for this item. However, there were no expenditures reported for this item; therefore, Finance made a $20,000 PPA.

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. 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 $1,475,552 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014		
Total RPTTF requested for non-administrative obligations		1,836,399
Total RPTTF requested for administrative obligations		125,000
Total RPTTF requested for obligations	**$**	**1,961,399**
Total RPTTF requested for non-administrative obligations		**1,836,399**
Denied Items		
Item No. 5		(55,232)
Item No. 12		(257,339)
Item No. 13		(99,026)
		(411,597)
Total RPTTF approved for non-administrative obligations		**1,424,802**
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)		**70,750**
Total RPTTF approved for obligations		**1,495,552**
ROPS III prior period adjustment		(20,000)
Total RPTTF approved for distribution	**$**	**1,475,552**

Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	1,617,920
Total RPTTF for 13-14B (January through June 2014)	1,424,802
Less approved unfunded obligations from prior periods	-
Total RPTTF for fiscal year 2013-14	**3,042,722**
Allowable administrative cost for fiscal year 2013-14 (Greater of 3% or $250,000)	250,000
Administrative allowance for 13-14A (July through December 2013)	179,250
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	**70,750**

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/.

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: Ms. Wendy Howard, Acting Deputy Finance Director, City of Eureka
Mr. Joe Mellett, Auditor-Controller, Humboldt County
California State Controller's Office