



November 14, 2013

Mr. Rene L. Mendez, City Manager
City of Gonzales
PO Box 647
Gonzales, CA 93926

Dear Mr. Mendez:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Gonzales Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on October 01, 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 and 4 – Reimbursement and Loan Agreements (Agreements) between the Agency and the City of Gonzales (City) totaling \$11,829,782 are not allowed at this time. The Agency received a Finding of Completion on June 14, 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 items 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 pass-through distributed to the taxing entities in that fiscal year and the ROPS residual pass-through 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, the Agency may be able to request funding for the repayment of these items beginning with ROPS 14-15A.

- Item No. 10 – Supplemental Educational Revenue Augmentation Fund Loan in the amount of \$597,734 is not an enforceable obligation at this time. HSC section 34176 (e) (6) (B) specifies loan or deferral repayments to the Low and Moderate Income Housing Fund

(LMIHF) shall not be made prior to the 2013-14 fiscal year. While ROPS 13-14B technically falls within fiscal year 2013-14, the repayment of these loans is subject to the repayment formula outlined in HSC section 34176 (e) (6) (B), as stated above. Therefore, the Agency may be able to request funding for the repayment of this item beginning with ROPS 14-15A.

- Item No. 16 – HSC 34174 (d) (1) (A) Reserve in the amount of \$400,515. Finance approved \$461,915 for debt service payments due during ROPS 13-14A. It is our understanding the Agency received \$481,739 for ROPS 13-14A, which was sufficient to make the required debt service payments. HSC section 34171 (d) (1) (A) permits reserves to be held only when required by the bond indenture, or when the next property tax allocation will be insufficient to pay all obligations under the provisions of the bond for the next payment due in the following half of the fiscal year. The Agency has historically received sufficient tax increment to pay bond debt service obligations. Therefore, the replenishment of debt service reserve funds is not eligible for Redevelopment Property Tax Trust Fund (RPTTF) funding.

Finance would like to remind the Agency of the order of priority for payments; enforceable obligations should be paid pursuant to HSC section 34183 (a) (2), which allocates debt service payments as first priority.

- Claimed administrative costs exceed the allowance by \$7,500. 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 Monterey County Auditor-Controller's Office distributed \$132,500 for the July through December 2013 period, thus leaving a balance of \$117,500 available for the January through June 2014 period. Although \$125,000 is claimed for administrative cost, only \$117,500 is available pursuant to the cap. Therefore, \$7,500 of excess administrative cost is not allowed.

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 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 \$233,141 as summarized below:

Approved RPTTF Distribution Amount For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	1,061,010
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,186,010
Total RPTTF requested for non-administrative obligations	1,061,010
Denied Items	
Item No. 3	(151,410)
Item No. 4	(60,000)
Item No. 10	(119,547)
Item No. 16	(400,515)
	<u>(731,472)</u>
Total RPTTF approved for non-administrative obligations	329,538
Total RPTTF allowable for administrative obligations (see Admin Cost Cap table below)	117,500
Total RPTTF approved for obligations	447,038
ROPS III prior period adjustment	(213,897)
Total RPTTF approved for distribution	\$ 233,141
Administrative Cost Cap Calculation	
Total RPTTF for 13-14A (July through December 2013)	624,615
Total RPTTF for 13-14B (January through June 2014)	329,538
Total RPTTF for fiscal year 2013-14	954,153
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)	132,500
Allowable RPTTF distribution for administrative cost for ROPS 13-14B	117,500

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 Nichelle Thomas, Supervisor or Susana Medina Jackson, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. Thomas Truskowski, Community Development Director, City of Gonzales
Ms. Julie Aguero, Auditor Controller Analyst II, Monterey County
California State Controller's Office