



November 8, 2013

Ms. Jone Hayes, Administrative Services Director
City of Healdsburg
401 Grove Street
Healdsburg, CA 95448

Dear Ms. Hayes:

Subject: Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (m), the City of Healdsburg Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule (ROPS 13-14B) to the California Department of Finance (Finance) on September 26, 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 reason specified:

Item No.10 – Property Tax Administration Fee in the amount of \$2,050,000. The Agency requests the use of other funds in amount of \$50,000 for the ROPS 13-14B period. HSC section 34182 (e) allows the County Auditor-Controller (CAC) to deduct their administration costs prior to distributing property tax increment funds. Therefore, this item is not an enforceable obligation and is not eligible for funding on the ROPS.

During our review, which may have included obtaining financial records, Finance determined the Agency possesses funds that are required to be used prior to requesting funding from the Redevelopment Property Tax Trust Fund (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. Our review indicated available reserve balances of \$96,610 and other funds balances of \$204,995 as noted below:

- Available Reserve Balances totaling \$96,610. Specifically:
 - The Agency was approved for ROPS II RPTTF funding in the amount of \$2,864,351. Procedure 9 of the Low Mod Income Housing Fund and Other Funds and Accounts (OFA) Due Diligence Reviews (DDR), authorized the Agency to retain a total of \$2,977,765 for ROPS II obligations. However, \$113,414 (\$2,977,765 - \$2,864,351) was improperly retained and should be available for reclassification. This amount was for the administrative cost

allowance for the ROPS III period, which had not yet been received by the Agency and, therefore, was not eligible for restriction. As such, \$113,414 of reserve balances is available for reclassification.

- The Agency's prior period adjustment form for the ROPS II period reflects approved reserve balances that were not fully expended for Item Nos. 7, 8 and 11. Additionally, the Agency's ROPS 13-14B reflects that the obligations associated with Item No. 7 and 11 are now retired. Therefore, the reserves are available for expenditure toward ROPS 13-14B obligations. The unexpended reserve balances for these retired obligations total \$103,925. As such, \$103,925 of reserve balances is available for reclassification.
- Based upon the Agency's prior period adjustment for ROPS I, the CAC adjusted the Agency's ROPS III distribution by \$120,729 pursuant to HSC section 34186 (a). Therefore, Finance will offset available reserve balances by \$120,729 to allow for authorized ROPS III expenditures.
- Available Other Funds totaling \$204,995. Specifically:
 - The Agency receives monthly lease revenue from the Alliance Medical Center, pursuant to the Health Care Clinic Building Lease Agreement. Per the terms of the Lease Agreement, the monthly lease revenue received by the Agency is equal to and is to be used for payment of principal and interest of the USDA Loan (Item No. 2 on ROPS). The Agency stated that they currently hold \$238,680 of prior lease revenue related to the Lease Agreement that should have been applied to the USDA Loan payment. Further, the Agency stated they have used lease revenue in the past for costs other than principal and interest payments on the USDA Loan, such as property maintenance. Finance authorizes \$33,725 of other funds for Item No. 2 in ROPS 13-14B. As the retention of prior period revenue is not an enforceable obligation, other funds totaling \$204,995 (\$238,680 - \$33,725) are available for ROPS 13-14B enforceable obligations.

Therefore, Finance has reclassified the funding sources for the following items to reserve balances or other funds in the amounts specified below:

- Item No. 6 – 2010 Tax Allocation Bonds in the amount of \$169,790. The Agency requests \$515,400 of RPTTF; however, Finance is reclassifying \$73,180 to other funds and \$96,610 to reserves. This item, totaling \$515,400 was determined to be an enforceable obligation for the ROPS 13-14B period. Finance is approving RPTTF in the amount of \$345,610, and reclassifying RPTTF to Other funds in the amount of \$73,180 and reserve balances in the amount of \$96,610, totaling \$169,790 being reclassified.
- Item No. 8 – Trustee Agreement in the amount of \$5,765. The Agency continues to have \$750 of available reserves from the OFA DDR for this obligation. Therefore, Finance is reclassifying \$750 of reserve balances and \$5,015 of other funds, totaling \$5,765.
- Item No. 9 – Trustee Agreement in the amount of \$1,800. Finance is reclassifying \$1,800 to other funds.

- Item Nos. 56 through 62 – Administrative Costs totaling \$125,000. The Agency requests \$125,000 of Administrative RPTTF; however, Finance is reclassifying \$125,000 to other funds. These items were determined to be enforceable obligations for the ROPS 13-14B period. Finance is approving the use of other funds in the amount of \$125,000 for Item Nos. 56 through 62.

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 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.

For funding sources other than RPTTF, Finance made adjustments to the Prior Period Adjustments form to ensure consistency with the funding sources and amounts approved by Finance. HSC Section 34177 (a) (3) states that the Agency can only make payments listed on the ROPS, from the funds listed and authorized by Finance. Although these adjustments have no effect on the amount of RPTTF the Agency receives, they will affect the Agency's fund balances for the funding sources involved.

- Item Nos. 11 through 14, 16, and 22 through 55 – Bond proceeds and reserve balances in the respective amounts of \$27,440,698 and \$1,856,000. These items were denied in Finance's ROPS III Meet and Confer determination letter dated December 18, 2012. Therefore, Finance adjusted the Agency's authorization for bond proceeds of \$27,440,698 and reserve balances of \$1,856,000 to zero dollars. As such, ROPS III bond proceeds expenditure totaling \$1,089,393 is disallowed.
- In the ROPS III prior period adjustment form, for Item Nos. 9 and 10 the Agency reported spending other funds in excess of the ROPS III authorized amount. Therefore, the excess expenditure of other funds totaling \$94,375 is disallowed.

Except for the item denied in whole as an enforceable obligation 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 \$1,104,896 as summarized below:

Approved RPTTF Distribution Amount	
For the period of January through June 2014	
Total RPTTF requested for non-administrative obligations	1,332,268
Total RPTTF requested for administrative obligations	125,000
Total RPTTF requested for obligations	\$ 1,457,268
Total RPTTF requested for non-administrative obligations	1,332,268
<u>Reclassified Items</u>	
Item No. 6	(169,790)
Item No. 8	(5,765)
Item No. 9	(1,800)
Total RPTTF approved for non-administrative obligations	1,154,913
Total RPTTF requested for administrative obligations	125,000
<u>Reclassified Items</u>	
Item No. 56	(20,000)
Item No. 57	(62,059)
Item No. 58	(4,000)
Item No. 59	(4,000)
Item No. 60	(3,000)
Item No. 61	(150)
Item No. 62	(31,791)
Total RPTTF approved for administrative obligations	0
Total RPTTF approved for obligations	1,154,913
ROPS III prior period adjustment	(50,017)
Total RPTTF approved for distribution	\$ 1,104,896

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 Wendy Griffe, Supervisor or Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Assistant Program Budget Manager

cc: Mr. David Mickaelian, Assistant City Manager, City of Healdsburg
Mr. Erick Roeser, Property Tax Manager, Sonoma County
California State Controller's Office